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JULY/AUGUST 2001

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Felipe de la Balze *on* NAFTA and the Southern Cone

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FOREIGN AFFAIRS

JULY/AUGUST 2001
VOLUME 80, NUMBER 4

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From Seattle to Québec City, antiglobalization protesters have complained that international institutions are illegitimate because they are undemocratic. To fight this perception, global organizations need to increase transparency, improve accountability, and think harder about norms for global governance.

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With so many players involved, the eagerly anticipated Free Trade Area of the Americas is likely to wind up a shallow project. A better way to jump-start hemispheric integration would be to expand NAFTA to the Southern Cone—enhancing prosperity, security, and democracy throughout South America.

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The simmering dispute over the status of Taiwan may soon explode in violence. The Chinese regime sees Taiwan's recent democratization as an implicit challenge to its own authority and legitimacy and thus continues to threaten and intimidate the island. Meanwhile, Taiwan has procured advanced defensive weapons from the United States. Growing tensions across the Taiwan Strait, along with the lack of military and diplomatic communication, make conflict—possibly involving the United States—increasingly likely. To avoid such an outcome, Washington should actively facilitate cross-strait dialogue and deter provocations by either side. But it must do so soon, for both China and Taiwan are growing impatient.

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Comments

AP/WIDE WORLD PHOTOS

Protesters face off against the police, Québec City, Canada, April 22, 2001

Increasing the perceived legitimacy of international institutions requires greater transparency and accountability.

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Globalization's Democratic Deficit

How to Make International Institutions More Accountable

Joseph S. Nye, Jr.

Seattle; Washington, D.C.; Prague; Québec City. It is becoming difficult for international economic organizations to meet without attracting crowds of protesters decrying globalization. These protesters are a diverse lot, coming mainly from rich countries, and their coalition has not always been internally consistent. They have included trade unionists worried about losing jobs and students who want to help the underdeveloped world gain them, environmentalists concerned about ecological degradation and anarchists who object to all forms of international regulation. Some protesters claim to represent poor countries but simultaneously defend agricultural protectionism in wealthy countries. Some reject corporate capitalism, whereas others accept the benefits of international markets but worry that globalization is destroying democracy.

Of all their complaints, this last concern is key. Protest organizers such as Lori Wallach attributed half the success of the Seattle coalition to "the notion that the democracy deficit in the global economy is neither necessary nor acceptable." For globalization's supporters, accordingly, finding some way to address its perceived democratic deficit should become a high priority.

IT'S A SMALL WORLD

Globalization, defined as networks of interdependence at worldwide distances, is not new. Nor is it just economic. Markets have spread and tied people together, but environmental, military, social, and political interdependence have also increased. If the current political backlash against globalization were to lead to a rash of protectionist policies, it might slow or even reverse the world's economic integration—as has happened at times in the past—even as global warming or the spread of the AIDS virus continued apace. It would be ironic if current protests curtailed the positive aspects of globalization while leaving the negative dimensions untouched.

JOSEPH S. NYE, JR., is Dean of Harvard University's Kennedy School of Government. This article draws on his address to the March 2001 meeting of the Trilateral Commission in London and on his work with Robert O. Keohane in the recent book *Governance in a Globalizing World.*

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Markets have unequal effects, and the inequality they produce can have powerful political consequences. But the cliché that markets always make the rich richer and the poor poorer is simply not true. Globalization, for example, has improved the lot of hundreds of millions of poor people around the world. Poverty can be reduced even when inequality increases. And in some cases inequality can even decrease. The economic gap between South Korea and industrialized countries, for example, has diminished in part because of global markets. No poor country, meanwhile, has ever become rich by isolating itself from global markets, although North Korea and Myanmar have impoverished themselves by doing so. Economic globalization, in short, may be a necessary, though not sufficient, condition for combating poverty.

The complexities of globalization have led to calls for a global institutional response. Although a hierarchical world government is neither feasible nor desirable, many forms of global governance and methods of managing common affairs already exist and can be expanded. Hundreds of organizations now regulate the global dimensions of trade, telecommunications, civil aviation, health, the environment, meteorology, and many other issues.

Antiglobalization protesters complain that international institutions are illegitimate because they are undemocratic. But the existing global institutions are quite weak and hardly threatening. Even the much-maligned World Trade Organization (WTO) has only a small budget and staff. Moreover, unlike self-appointed nongovernmental organizations (NGOs), international institutions tend to be highly responsive to national governments and can thus claim some real, if indirect, democratic legitimacy. International economic institutions, moreover, merely facilitate cooperation among member states and derive some authority from their efficacy.

Even so, in a world of transnational politics where democracy has become the touchstone of legitimacy, these arguments probably will not be enough to protect any but the most technical organizations from attack. International institutions may be weak, but their rules and resources can have powerful effects. The protesters, moreover, make some valid points. Not all member states of international organizations are themselves democratic. Long lines of delegation from multiple governments, combined with a lack of transparency, often weaken accountability. And although the organizations may be agents of states, they often represent only certain parts of those states. Thus trade ministers attend WTO meetings, finance ministers attend the meetings of the International Monetary Fund (IMF), and central bankers meet at the Bank for International Settlements in Basel. To outsiders, even within the same government, these institutions can look like closed and secretive clubs. Increasing the perceived legitimacy of international governance is therefore an important objective and requires three things: greater clarity about democracy, a richer understanding of accountability, and a willingness to experiment.

WE, THE PEOPLE

Democracy requires government by officials who are accountable and removable by the majority of people in a jurisdiction,

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FINE POETRY, FAULTY ANALYSIS

In the Parliament of man, the Federation of the world.
There the common sense of most shall hold a fretful realm in awe,
And the kindly earth shall slumber, lapped in universal law.

—from "Locksley Hall," by Alfred, Lord Tennyson

together with protections for individual and minority rights. But who are "we the people" in a world where political identity at the global level is so weak? "One state, one vote" is not democratic. By that formula, a citizen of the Maldive Islands would have a thousand times more voting power than would a citizen of China. On the other hand, treating the world as a single global constituency in which the majority ruled would mean that the more than 2 billion Chinese and Indians could usually get their way. (Ironically, such a world would be a nightmare for those antiglobalization NGOs that seek international environmental and labor standards, since such measures draw little support from Indian or Chinese officials.)

In a democratic system, minorities acquiesce to the will of the majority when they feel they are generally full-fledged participants in the larger community. There is little evidence, however, that such a strong sense of community exists at the global level today, or that it could soon be created. In its absence, the extension of domestic voting procedures to the global level makes little practical or normative sense. A stronger European Parliament may reduce the "democratic deficit" within a union of relatively homogeneous European states, but it is doubtful that such an institution makes sense for the world at large. Alfred, Lord Tennyson's "Parliament of man" made for great Victorian poetry, but it does not stand up to contemporary political analysis. Democracy, moreover, exists today only in certain well-ordered nation-states, and that condition is likely to change only slowly.

Still, governments can do several things to respond to the concerns about a global democratic deficit. First, they can try to design international institutions that preserve as much space as possible for domestic political processes to operate. In the WTO, for example, the procedures for settling disputes can intrude on domestic sovereignty, but a country can reject a judgment if it pays carefully limited compensation to the trade partners injured by its actions. And if a country does defect from its WTO trade agreements, the settlement procedure limits the kind of tit-for-tat downward spiral of retaliation that so devastated the world economy in the 1930s. In a sense, the procedure is like having a fuse in the electrical system of a house: better the fuse blow than the house burn down. The danger with the WTO, therefore, is not that it prevents member states from accommodating domestic political choices but rather that members will be tempted to litigate too many disputes instead of resolving them through the more flexible route of political negotiations.

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CLEARER CONNECTIONS

Better accountability can and should start at home. If people believe that WTO meetings do not adequately account for environmental standards, they can press their governments to include environment ministers or officials in their WTO delegations. Legislatures can hold hearings before or after meetings, and legislators can themselves become national delegates to various organizations.

Governments should also make clear that democratic accountability can be quite indirect. Accountability is often assured through means other than voting, even in well-functioning democracies. In the United States, for example, the Supreme Court and the Federal Reserve Board respond to elections indirectly through a long chain of delegation, and judges and government bankers are kept accountable by professional norms and standards, as well. There is no reason that indirect accountability cannot be consistent with democracy, or that international institutions such as the IMF and the World Bank should be held to a higher standard than are domestic institutions.

Increased transparency is also essential. In addition to voting, people in democracies debate issues using a variety of means, from letters to polls to protests. Interest groups and a free press play important roles in creating transparency in domestic democratic politics and can do so at the international level as well. NGOs are self-selected, not democratically elected, but they too can play a positive role in increasing transparency. They deserve a voice, but not a vote. For them to fill this role, they need information from and dialogue with international institutions. In some instances, such as judicial procedures or market interventions, it is unrealistic to provide information in advance, but records and justifications of decisions can later be disclosed for comment and criticism—as the Federal Reserve and the Supreme Court do in domestic politics. The same standards of transparency should be applied to NGOs themselves, perhaps encouraged by other NGOs such as Transparency International.

The private sector can also contribute to accountability. Private associations and codes, such as those established by the international chemical industry in the aftermath of the Bhopal disaster, can prevent a race to the bottom in standards. The practice of "naming and shaming" has helped consumers hold transnational firms accountable in the toy and apparel industries. And although people have unequal votes in markets, the aftermath of the Asian financial crisis may have led to more increases in transparency by corrupt governments than any formal agreements did. Open markets can help diminish the undemocratic power of local monopolies and reduce the power of entrenched and unresponsive government bureaucracies, particularly in countries where parliaments are weak. Moreover, efforts by investors to increase transparency and legal predictability can spill over to political institutions.

NEW DEMOCRATS

Rather than merely rejecting the poorly formulated arguments of the protesters, proponents of international institutions should experiment with ways to improve accountability. Transparency is essential, and international organizations can provide more access to their deliberations,

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even if after the fact. NGOs could be welcomed as observers (as the World Bank has done) or allowed to file "friend of the court" briefs in WTO dispute-settlement cases. In some cases, such as the Internet Corporation for Assigned Names and Numbers (which is incorporated as a nonprofit institution under the laws of California), experiments with direct voting for board members may prove fruitful, although the danger of their being taken over by well-organized interest groups remains a problem. Hybrid network organizations that combine governmental, intergovernmental, and nongovernmental representatives, such as the World Commission on Dams or U.N. Secretary-General Kofi Annan's Global Compact, are other avenues to explore. Assemblies of parliamentarians can also be associated with some organizations to hold hearings and receive information, even if not to vote.

In the end, there is no single answer to the question of how to reconcile the necessary global institutions with democratic accountability. Highly technical organizations may be able to derive their legitimacy from their efficacy alone. But the more an institution deals with broad values, the more its democratic legitimacy becomes relevant. People concerned about democracy will need to think harder about norms and procedures for the governance of globalization. Neither denying the problem nor yielding to demagogues in the streets will do.

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Finding Allies in the Back Yard

NAFTA and the Southern Cone

Felipe A.M. de la Balze

The United States—preeminent but not hegemonic—cannot maintain its global leadership without the cooperation of like-minded nations that share its interests and values. In fact, in the coming years, American preeminence will likely remain stable only in regions where the United States has signed agreements with countries that have congenial economic and sociopolitical systems.

Fortunately, creating agreements based on the promotion of regional economic growth, integration into the world economy, and the consolidation of democracy is feasible under certain circumstances. Witness the successive expansions of the European integration project (now the European Union), which incorporated Italy in the 1950s, Spain in the 1970s, and then Greece, Ireland, and Portugal in the 1980s.

Now a similar opportunity for integration exists in the Southern Cone of South America. A core group of countries—Argentina, Brazil, Chile, and Uruguay—have made great strides in recent years and are poised, despite their short-term economic problems, to make steady political and economic gains over the next decade. The right incentives are critical, however, to ensure that these nations become fully democratic, market-oriented allies of the United States.

To this end, the best incentive the United States can provide is an expansion of the North American Free Trade Agreement (NAFTA) to the Southern Cone, making these South American nations members of the pact alongside the United States, Canada, and Mexico. But economic integration will not succeed without a compelling political rationale as well: namely, the promotion of democracy and regional security that could follow the creation of a "super NAFTA." Such a comprehensive treaty system would offer great advantages to all its participants, helping to stabilize and enrich the Americas, and would further the process of hemispheric integration.

FELIPE A.M. DE LA BALZE is Director of the Argentine Council on Foreign Relations and Professor of International Economics at the Foreign Service School and at the Advanced School of the Ministry of Defense in Buenos Aires. His recent books include *Mercosur: Entre la Retórica y el Realismo.*

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INTEGRATION EXPRESS

A seven-state NAFTA, incorporating democratic and security accords as well as economic agreements, would offer a wide array of benefits to the entire hemisphere and could eventually integrate other Latin American countries. Before joining, however, a number of potential members—particularly Andean states such as Bolivia, Colombia, Ecuador, Peru, and Venezuela—would need to be brought up to speed. These countries need help in addressing endemic problems such as economic instability, low per-capita income, illiberal democratic practices, and narcoterrorism. In much of South America, public services remain poor. Bureaucracies stifle innovation; legislatures are feeble and, along with judiciaries, are sometimes corrupt. Bringing economic growth and social stability to South America will require not only a vibrant private sector and functioning markets but also public education for the young, job training for the unemployed, public health care for the poor, and courts and police that treat all citizens alike. Improving government and reducing corruption, therefore, will be an essential condition for expanding NAFTA.

Again, Europe provides a good precedent for how to accomplish these tasks. The European Union and NATO have successfully employed both carrots and sticks to encourage candidates in central and eastern Europe to undertake the political, military, and economic modernization that membership requires.

A new, comprehensive set of agreements between the United States and South America would have significant advantages over a pact limited to trade liberalization. For example, the Free Trade Area of the Americas (FTAA) now under discussion would progressively reduce trade barriers but would include no measures for political or security integration. Furthermore, its drafters hope that by 2005, the FTAA would include a large number of diverse countries: 34 in total. But getting that many countries to agree on anything will inevitably require watering down the provisions, as has occurred, for example, in the multilateral trade negotiations organized under the aegis of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), since the Tokyo Round of talks in the 1970s. The FTAA will thus end up as a lowest-common-denominator agreement. With so many players, the FTAA negotiations will lead to nothing more than large-scale window dressing or, at best, a shallow economic integration project.

NAFTA, however, has much greater potential. Launched in 1993, the agreement initially met wide criticism in the United States from labor groups and others who opposed free trade. In Mexico, groups that rejected closer links to the United States fought NAFTA on protectionist and nationalist grounds. Since then, however, the Mexican government's decision to join the agreement has become increasingly popular. Former critics have noted the expansion of trade between the United States and Mexico, from $76 billion in 1993 to nearly $246 billion in 2000. Also credited (at least in part) to NAFTA is Mexico's strong economic recovery since 1996 and its successful transition to full democracy after 70 years of one-party rule.

In the mid-1990s, the success of NAFTA generated a lot of talk about creating a

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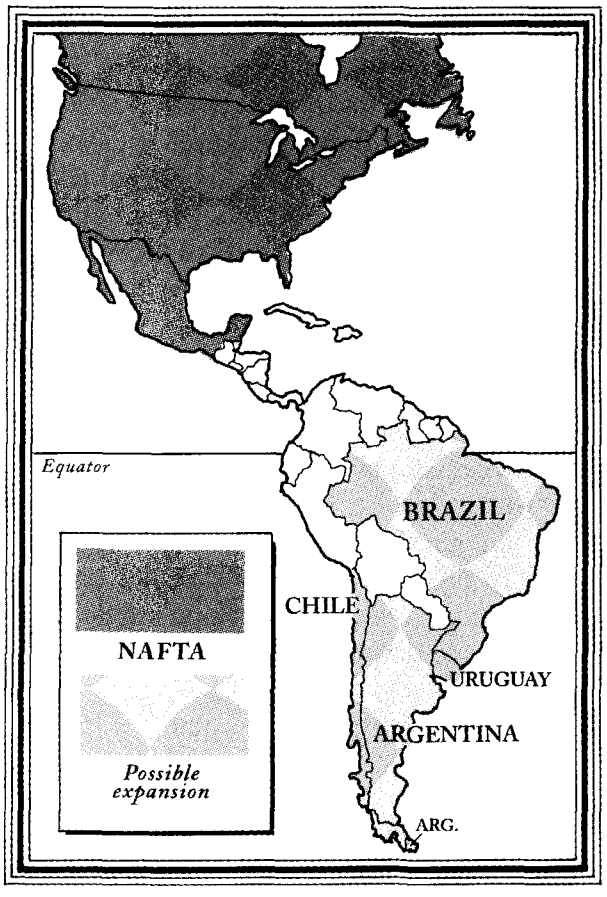
more extensive trade pact to embrace additional countries in the hemisphere. Momentum was lost, however, when President Clinton failed to obtain renewal of the "fast track" negotiating authority from Congress that hammering out a new pact would have required. Subsequent discussions of a hemispheric free trade zone bogged down over technical and bureaucratic issues. In its final days, the Clinton administration began bilateral trade negotiations with Chile, but this effort failed to reverse the decline in enthusiasm in Washington and most South American capitals. Now, President Bush's declared intention to reach a trade agreement with Chile before the end of this year and his active participation at April's hemispheric summit in Québec City suggest that the United States has once again become interested in expanded trade pacts. It is time for Washington to start acting on these impulses.



MAP BY IB OHLSSON FOR FOREIGN AFFAIRS

LESSONS LEARNED

The economic restructuring and policy reforms implemented in some South American countries during the 1990s brought lower inflation, increased exports, and expanded access to international capital and foreign investments. Not surprisingly, the three countries that implemented reforms early reaped the greatest benefits. During the 1990s, average annual per capita income grew by 4.6 percent in Chile, 3.5 percent in Argentina, and 2.8 percent in Peru. Growth was slower elsewhere, however: just 2.2 percent in Uruguay and 1.7 percent in Bolivia. Brazil, the largest country in South America, managed only a 1 percent growth rate. Even worse, a disturbing number of countries—including Colombia, Ecuador, Paraguay, and Venezuela—lost ground, such that their per capita income in 1999 amounted to less than or almost the same as in 1990.

The global financial turmoil of the last few years, meanwhile, has revealed that South American economies are highly vulnerable to external shocks. Most countries in the region have faced current account deficits of 3 to 5 percent of GDP over the last few years. Successive financial and currency crises in Asia, Russia, Brazil, and Argentina generated intense pressure on capital markets, caused interest rates to skyrocket, and weakened the external accounts of all South American countries.

Even the Southern Cone common market (known as Mercosur, which includes Argentina, Brazil, Paraguay, and

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Uruguay)—the most important preferential trade agreement in South America—has had a difficult time in the last two years. Brazil's devaluation of its currency, the real, in early 1999 created serious tensions within the group. And these proved hard to overcome, due to Mercosur's weak dispute-resolution machinery. The problems were also exacerbated by a growing tendency of Mercosur members to negotiate individual trade agreements with third countries and by their excessive, unilateral use of non-tariff barriers and subsidies to promote foreign direct investment.

The troubles within Mercosur illustrate two principles that any future trade pact should take into account. Successful trade integration requires a core set of common institutions and rules to define and implement trade policy and resolve disputes. It also demands at least minimal stability in real (that is, adjusted for inflation) exchange rates between the member countries. These conditions were not met by Mercosur. Hence, when the politics of economic integration became difficult, member governments succumbed to temptation and resolved domestic problems at the expense of their neighbors.

COMING TOGETHER

Despite the current gloomy atmosphere, however, there are reasons for hope. For the first time since the countries of South America won their independence, the priorities of local governing elites and public opinion are converging with those of the United States. However, the process of consolidating democratic governments and market-oriented economies in South America and integrating them into the global system is far from complete. Substantial political progress has been made, but democracy is still threatened in several Andean countries. The external balance-of-payments bottleneck still looms on the horizon. With the partial exception of Chile, South American economies have not fully succeeded in becoming steady and diversified exporters to world markets.

The problems that remain have varied and complex causes. The domestic protectionism that South America followed for 45 years after World War II inhibited export growth and diversification. And difficulties in gaining access to the markets of the most advanced countries have made it hard for South America to compete.

Now a populist backlash could ensue if new democracies and market-oriented economies fail to deliver reasonably high rates of economic growth and fairer income distribution over the next decade. Such popular resentment against reform could be manipulated by authoritarian and corporate interests. Forces opposed to modernization remain a threat in much of the region, even if they now take different forms than in the past. Worrisome signs can be found in new alliances between guerrilla movements and narcotics traffickers, in the emergence of populist authoritarian regimes in countries such as Venezuela, and in a weakening of the rule of law in the northern Andean region. Unrest in afflicted countries could spill over into other nations. Washington's economic and political influence over South America would diminish, and U.S. political, security, and business interests could all suffer as a result.

It will not be easy, therefore, to consolidate the recent positive trends in the region. If reforms are to succeed, South American nations need to grow rapidly

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and maintain a strong export orientation. In addition, they must win the confidence of local and international investors and reduce the excessively high interest rates that currently burden government finances and severely limit local entrepreneurship.

The best way to do this will be for South American countries to work together. Led by the Southern Cone and working with the United States, these nations should gradually develop a new multilateral architecture for the continent. This new system should be based on common adherence to democracy, rule of law, and free markets, and should be effected through the gradual extension of NAFTA and a network of regional political and security agreements. This effort would entail a two-track strategy. The first track would aim at consolidating the important gains already achieved by the Southern Cone nations by bringing them into a "super NAFTA" by 2003. The second track would then gradually incorporate the remaining countries of the region into the new economic, political, and security accords.

Such a strategy shows great promise. The Southern Cone countries form a stable core where neither military dictatorships nor populist or inward-looking economic strategies are likely to be reestablished. Today, none of these countries would seriously consider shutting the door to foreign investment, renationalizing privatized enterprises, or moving away from sound macroeconomic management. Their militaries have been brought under firm civilian control. These nations need no longer worry about preserving democracy; they can focus instead on how to deepen it and ensure its fairness. Doing so will be slow and time-consuming and will require stronger institutions, more citizen participation in government, and sustained, export-oriented economic development.

To lock in the region's democratic advances, the new arrangements should include conditions that require members to meet a certain democratic standard before being admitted, and to maintain that standard once they have joined. Such an agreement should also include specific provisions for oversight and penalties for failure to comply.

Meaningful security arrangements, meanwhile, will take time to evolve. A first stage might consist of regionally coordinated border controls and exchanges of intelligence and information about force structure. In the long term, however, the parties should strive for a more comprehensive agreement, one that features a common defense policy and institutions that can cope with drugs, terrorism, and arms control—all transnational issues that require transnational solutions.

But in the short term, the heart of any new regional arrangement must be economic. To get the Southern Cone countries to take negotiations seriously, the United States must assure them access to its markets. Of course, selling NAFTA expansion to the U.S. public will also not be easy. Powerful U.S. interest groups, particularly labor unions and environmentalists, oppose free trade. The domestic economic impact of expanding NAFTA, however, will not be as formidable as it might seem at first. Last year, the total exports of Brazil, Argentina, Chile, and Uruguay into the U.S. market were modest—amounting to less than U.S. imports from Singapore. In fact, in the same year, the value of all U.S. trade with Southern Cone countries was just $45 billion, or about 18 percent of the trade between the United States and Mexico.

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The United States has also enjoyed a large permanent trade surplus with these four countries over the last decade, which should help assuage the fears of American protectionists. Meanwhile, U.S. investments in Southern Cone countries are already substantial and have grown rapidly in recent years. These investments reached $58 billion in 1998, outstripping American investments in Germany ($42 billion), France ($40 billion), Mexico ($30 billion), and Hong Kong ($20 billion). This large U.S. investment provides another important reason to push for regional integration.

For their part, American trade unions that oppose free trade out of concern for labor conditions need not fear NAFTA expansion. Southern Cone countries have the capability to meet internationally recognized and enforceable labor standards; they respect workers' rights to organize and strike and have banned sweatshops and child labor. And the great distance between the United States and the Southern Cone means that illegal immigration will be far less a problem than it is with Mexico.

To gain congressional approval, a new trade pact would also have to be accompanied by measures to safeguard the environment. This issue might be harder to resolve, since in South America—particularly in Brazil—foreign environmental standards are often perceived as an infringement on national sovereignty. Even so, Brazil has in recent years updated its environmental protection legislation and moved to meet some of the most important environmental concerns.

In addition to American fears, opposition to an expanded "super NAFTA" might come from the European Union, since such an extended South American trade pact might displace trade with EU countries and others outside the hemisphere. Europe has a strong historical, cultural, and demographic relationship with the Southern Cone. The EU accounts for approximately 30 percent of these countries' total foreign trade, and European multinational corporations have established a major presence in the area, where they account for nearly 40 percent of all foreign direct investment. The EU will naturally want to protect and promote its substantial economic and political interests in the Southern Cone; to this end, it has already begun negotiations to establish a free trade area with Mercosur. But these talks are unlikely to advance before the U.S. initiative moves forward. The recently signed trade agreement between Mexico and the EU, which represents Europe's response to NAFTA, has set the pattern for future arrangements.

As all of these factors suggest, achieving a new, comprehensive trade pact for South America will not be quick or easy. But the region is primed for an assertive U.S. initiative, such as a "super NAFTA," to consolidate the convergence of ideas, institutions, and interests now underway. A successful initiative would help establish a closer and more mutually beneficial relationship between the United States and the nations of South America. Furthermore, it would help the United States maintain its global leadership by establishing a group of like-minded allies in the hemisphere. And finally, it would launch the South American nations into a virtuous cycle of economic growth, greater social equality, and democratic deepening that would leave all parties better off. This is an opportunity that the hemisphere cannot afford to miss.

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Essays

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Spit and polish: Taiwanese soldiers under inspection, Taipei, February 2000

The prospect of a major war involving the United States is greater in the Taiwan Strait than anywhere else on the globe.

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Crisis in the Taiwan Strait?

Kurt M. Campbell and Derek J. Mitchell

TROUBLE ISLAND

THE APRIL standoff on Hainan Island following the collision of a U.S. spy plane with a Chinese fighter jet was a striking reminder of how troubled the relationship remains between the world's most powerful country and its most populous one. The sources of contention in that standoff—the purpose of reconnaissance flights, the interpretation of national sovereignty, and the handling of public diplomacy—could provoke a future standoff on another, more critical island: Taiwan. Although the spy-plane drama ended happily with the homecoming of the detained American crew, unresolved military and diplomatic issues promise greater discord to come in the U.S.-China relationship—a simmering conflict that could soon explode over the status of Taiwan.

Washington's official relationship with Beijing on the one hand and its unofficial relationship with Taipei on the other represent perhaps the most complex foreign-policy balancing act in the world today. At stake are a number of core U.S. foreign policy goals: the promotion of democracy, the preservation of U.S. credibility, loyalty to traditional allies and friends, the engagement and integration of an emerging power into the international system, and the maintenance of peace and stability in Asia as a whole. The interplay and clash among these various goals make the Taiwan Strait an unpredictable and therefore

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dangerous place. Moreover, Taiwan's recent democratization has undermined the "one-China" policy and made the prospect of conflict increasingly likely. Compounding the problem is the deep division within the U.S. foreign policy elite over how to maintain the increasingly fragile peace there. Perhaps nowhere else on the globe is the situation so seemingly intractable and the prospect of a major war involving the United States so real.

ONE CHINA, ONE TAIWAN

When Mao Zedong and Chiang Kai-shek ruled the mainland and Taiwan, respectively, the issue at stake was not whether there was only one China, but who its legitimate ruler was. Chiang sought to retake the mainland for the Republic of China (ROC), while the People's Republic of China (PRC) sought (and continues to seek) to bring the "renegade province" of Taiwan back into the fold, thus completing the Chinese communist revolution.

The one-China concept, however, has become increasingly blurred in recent years. The PRC has modernized its economy, but its political system remains very similar to the one Mao created more than 50 years ago. Over the same period, Taiwan has developed from an authoritarian state with a primitive economy into a prosperous free-market democracy. Although many observers in the PRC and some in the United States may still view the dispute over Taiwan's status as the last manifestation of a decades-old civil war, developments on the island over the past decade have changed the essential character of the divide.

In 1991, Taiwanese President Lee Teng-hui officially recognized the ROC's lack of authority on the mainland—stating the obvious while effectively severing the lingering political bond between Taipei and Beijing. Then, last year, the Taiwanese people elected President Chen Shui-bian, who has advocated formal independence and whose party has had no ties and little contact with the mainland. Since taking power, Chen's government has questioned the PRC's 1992 declaration of a "consensus" on the one-China principle and has rejected Beijing's requirement that Taipei accept the principle as a prerequisite for dialogue, preferring instead to put the principle itself up for discussion.

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After 50 years of de facto independence (not to mention a previous 50 years of Japanese colonialism), Taiwanese citizens have developed a cultural identity distinct from that of their mainland counterparts. The island's mainstream culture is becoming more and more Taiwanese, with the Taiwanese dialect gaining currency over the official Mandarin Chinese dialect, and with Taiwan's indigenous history increasingly being taught in schools. As time passes, the political, cultural, and emotional divide between Taiwan and the mainland will only widen further, even as economic and commercial ties continue to develop.

So far, however, the PRC seems unable to understand and deal effectively with Taiwan's changing political climate. The rise of Chen's Democratic Progressive Party has challenged the mainland's Chinese Communist Party to consider a new paradigm for its relations with the island, but the CCP has yet to implement one. Instead, it continues to develop its ties with the formerly ruling Kuomintang Party through public and private meetings in Beijing and Hong Kong. The PRC's determination to deal with only those Taiwanese who agree with its interpretation of the one-China policy has exacerbated the cross-strait divide.

Moreover, the PRC does not seem to understand that threats more often repel than compel democracies—and that Taiwan is no exception. Instead of offering incentives for Taipei to consider reconciliation, Beijing continues to practice intimidation tactics, including the rapid deployment of missiles across the strait. This coercive policy has proven counterproductive, reducing rather than enhancing the confidence and trust needed for dialogue.

At the same time, Taiwan's transition to democracy has changed the way it manages domestic issues and popular opinion. In the past, the ROC's authoritarian regime could ruthlessly impose its decisions on its people without regard to their will. Today, public attitudes and sentiments play a significant role in shaping government initiatives. Such democratic accountability may moderate the zeal of pro-independence leaders such as Chen, since any elected official must maintain cross-strait stability to stay in office. At the same time, however, democratic accountability will also prevent any dramatic moves toward the PRC, given the Taiwanese people's preference for the status quo.

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Fundamentally, the CCP sees Taiwan's democratic developments as an implicit challenge to its own authority and legitimacy. Last year's ROC presidential election, which led to the first peaceful democratic transition of power in Chinese history (on the mainland or in Taiwan), undercut the CCP's long-standing contention that democracy is not consistent with Chinese, or Asian, values. Thus the longer Taiwanese democracy continues to thrive, the more the CCP fears it may serve as a model for disgruntled segments of its own populace.

Moreover, the defeat of the Kuomintang in last year's ROC election represents a passing of the old guard in Taiwan, implicitly challenging the legitimacy of the old guard within the CCP as well. Indeed, the recently published *Tiananmen Papers,* detailing the regime's deliberations during the 1989 student uprising in Beijing, portrays a party elite deeply concerned about its political legitimacy and control.

DANGEROUS WATERS

OVER THE LAST 50 YEARS, the Taiwan Strait has been the site of an almost ritualistic pattern of military conflict. The ROC-controlled islands of Quemoy and Matsu, for example, were the scene of a tense Cold War standoff during the 1950s; beginning later that decade and continuing for two more decades, the PRC regularly shelled these islands according to an announced schedule.

After a brief thaw in relations during the 1980s and early 1990s, the Taiwan Strait has been remilitarized over the past five years. The origin of this military escalation is a matter of continuing dispute. Beijing argues the process began in 1992 with the U.S. sale of F-16 fighter aircraft to Taiwan. The Taiwanese counter that they bought the F-16s only in reaction to the PRC's acquisition of a squadron of SU-27 fighter aircraft from Russia. Whatever its origin, this "action-reaction" cycle has led both sides to intensify their military preparations.

The PRC has dusted off war plans previously left on the shelf. Over the last several years, the training regimen, doctrine, writings, weapons procurement, and rhetoric of the People's Liberation Army have all turned to focus on a Taiwan attack scenario. An entire generation of PLA officers has been trained to plan and execute a military invasion of the island. Top generals have been acquiring

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military support from Russia and Israel to create armaments designed specifically to combat Taiwan (and potential U.S. intervention on the island's behalf), including sophisticated aircraft, missiles, destroyers, and other advanced military technologies. The military systems that Beijing has fielded over the past five years look less like heavily armored bargaining chips and more like true military capabilities that could be used on the battlefield.

In response, Taiwan has started to modify its military institutions, capabilities, and strategies to combat a growing threat from the mainland. The ROC military, for instance, has sought to instill greater professionalism in its ranks and adopt more modern modes of warfare. Taiwan has traditionally taken a purely defensive approach to a potential military conflict with the PRC. But today's strategists suggest that claiming an advantage at an early stage in a clash may be essential for the island's survival, leading ROC military officials to think more in terms of quick strikes and rapid escalation.

Chinese military plans now focus on a Taiwan attack scenario.

Taiwan has also purchased a wide array of advanced defensive weapons, largely from the United States, which is currently its only reliable provider of military assistance. In the past, the ROC had focused on acquiring weapons to counter the growing numbers of ballistic missiles being deployed across the strait by the PRC. This year Taiwan's wish list concentrated on naval weaponry intended to combat any threat of a blockade by the mainland. During the annual arms-sales negotiations this April, Washington agreed to sell Taipei a robust package of naval systems, including diesel submarines, Kidd-class destroyers, P-3C antisubmarine aircraft, advanced torpedoes, and minesweeping helicopters.

Taiwan had also sought to purchase advanced Arleigh Burke–class destroyers equipped with AEGIS air-defense radar—a request that took on deep symbolic meaning for both sides of the strait. Beijing viewed the AEGIS system not only as a potential element of a future missile defense, but also as a harbinger of greater U.S.-Taiwan defense cooperation, which could embolden independence advocates on the island. At the same time, Taipei viewed the AEGIS technology not

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Good fences make good neighbors: anti-Chinese defenses, Quemoy Island, 1999

only as a necessary defense against a growing air threat from the PRC, but also as a comforting signal that the United States would maintain its commitment to the island's defense. In April, President George W. Bush deferred the AEGIS decision, partly to avoid a dramatic rift in U.S.-China relations so early in his administration. This deferral does not end the controversy, however; it merely postpones it until his administration is more firmly in place. In fact, Bush's decision later that month to end the annual arms-sales negotiation process suggests that he could change his position on the AEGIS issue at any time.

The AEGIS controversy is just one example of how discussions among Washington, Beijing, and Taipei have shifted toward military issues and away from the more promising commercial and economic ones long favored by moderates in all three capitals. During the April arms-sales talks, both sides of the strait placed disproportionate weight on a particular arms sale (the AEGIS system), thus framing the dispute in military rather than political terms. Such a mindset allows

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both sides to ignore the political issues involved and may unleash a destructive dynamic of military action and reaction.

Exacerbating the problem is the lack of military and political communication between Beijing and Taipei. The assumptions that animate policies in both capitals are often drawn from misleading and contradictory information about the other side. The potential for miscalculation resulting from a lack of understanding and direct contact has grown substantially in recent years. Last year, for example, fighter aircraft from both sides flew perilously close to one another around the arbitrary line that separates the operational training areas of the two armed forces. On several instances, the military aircraft were loaded with live ordnance. As cross-strait flights and military exercises increase, misunderstandings and miscalculations that could escalate into real military conflict will also increase. In today's militarized Taiwan Strait, inadvertence is as dangerous as premeditation.

An ambiguous U.S. policy may make the Taiwan Strait more dangerous.

In an attempt to remedy this situation, the United States has tried over the last several years (albeit mostly at the semi-official level) to encourage both sides to contemplate a host of measures aimed at building trust and improving communication. A number of Cold War models have been suggested, including a hot line, exercise notification, and a joint air-traffic-control center. These suggestions, coming mostly from the American academic community, have been met with stony silence, particularly from the PRC. After all, the Chinese goal is to erode confidence and security in Taiwan, not enhance it. For its part, the ROC has traditionally rejected confidence-building arrangements for fear that the United States might step back from its defense commitments as a result. Although Taiwan has demonstrated more interest in such measures in recent years, it is unclear whether that interest is genuine or whether it is just a way to distinguish the ROC position from the mainland one.

Not only do the PRC and Taiwan lack military communication, but they also lack political dialogue. Normally such a situation would invite outside mediation to help break the stalemate. However, no such international efforts are underway, either in the United Nations

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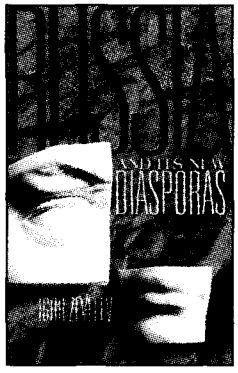

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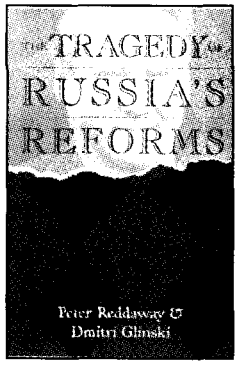

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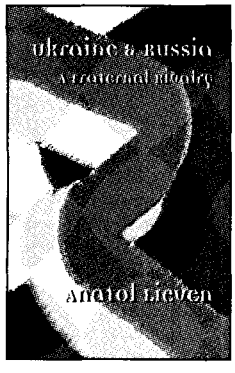

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or in Asia's security talk shop, the Association of Southeast Asian Nations' Regional Forum. Although Asian leaders recognize that a cross-strait conflict would be detrimental to regional peace, stability, and development, no one wants to get involved for fear of angering the PRC. Even those Asian leaders who could counsel restraint and mount regional pressure on Beijing have remained silent.

Likewise, the United States has avoided stepping in, despite its important diplomatic role in virtually every other hot spot around the world. Even though the Taiwan Strait is one of the few places in the world where U.S. forces may be drawn into a major conflict at a moment's notice, Washington has refrained from actively helping to ease tensions or to facilitate a resolution of the dispute. This state of affairs strikes many in the security community as particularly curious, if not dangerous.

CROUCHING TIGER, HIDDEN DRAGON

U.S. POLICY toward the Taiwan Strait has often been described as one of "strategic ambiguity." At first, the policy was a primarily political stance: Washington maintained an agnostic position on the ultimate status of Taiwan, requiring only that the matter be settled peacefully, by mutual agreement, and without coercion. Over time, however, the policy became increasingly defined in military terms. Washington did not make clear what actions it would take in the event of a cross-strait conflict, adhering only to the well-worn verse in the Taiwan Relations Act that the United States would "consider any effort to determine the future of Taiwan by other than peaceful means ... a threat to the peace and security of the Western Pacific area and of grave concern to the United States." Washington refrained from being more explicit about its response, believing that uncertainty would deter both Beijing and Taipei from making any provocative moves.

This policy of ambiguity has become difficult to explain and perhaps even more difficult to implement in recent years. It has hindered routine consultations with U.S. allies because even senior U.S. officials are not sure what Washington would do in the case of a true crisis. It has also severely constrained communication and planning with Taiwan's political and military authorities—essential elements

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of effective crisis management. In 1995–96, for example, Pentagon planners and intelligence specialists did not know how Taiwan would respond to the PRC's provocative missile tests across the strait. This blind spot in a tense situation was a wake-up call to the United States, leading to a substantial increase in military contact with Taiwan during the Clinton years. These meetings, however, remained unofficial and behind the scenes.

In response to these difficulties, a growing debate has emerged about whether the United States should move toward a policy of more explicit deterrence to prevent both provocative ROC political actions and coercive PRC military steps. Many observers fear that the U.S. policy of strategic ambiguity has been profoundly misinterpreted by both sides: Taiwan believes that in the end, the United States would support its independence, whereas the PRC believes that the United States would stand aside if the bullets ever started to fly. Misapprehensions of this sort can make ambiguity an ultimately dangerous strategy.

During the 2000 presidential campaign, Bush criticized the policy of strategic ambiguity for this very reason. Four months after he took office as president, he told an interviewer on *Good Morning, America* that the United States would do "whatever it takes" to defend Taiwan in the event of a Chinese attack. At first, this statement seemed to counter long-standing policy and provide new clarity to U.S. commitments. But the manner in which Bush made the announcement seemed to reinforce rather than reduce ambiguity concerning U.S. commitments to Taiwan. His statement was not coordinated with Congress or U.S. allies. And in an interview later that day, he reiterated his administration's adherence to the one-China policy—a statement later affirmed by members of his foreign policy team. Whereas Bush's statement appears to have sown concern and some confusion in Beijing, Taipei has warmly embraced the increased clarity, stating that the comment made the U.S. commitment to stability in the region "more convincing."

As demonstrated by Bush's statement, the ambiguity of U.S. policy toward the Taiwan Strait is not entirely strategic. Significant disagreements within Washington muddle the U.S. position and mitigate the policy's effectiveness. This political ambiguity is not new: beginning in the 1950s, conservative Republican legislators used the U.S. commitment

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to Taiwan—and the related issue of "who lost China"—to attack President Harry Truman for his insufficient anticommunist zeal. And in 1979, Congress passed the Taiwan Relations Act to affirm abiding U.S. security commitments to the island in response to President Jimmy Carter's recognition of the PRC.

This tension between Congress and the White House continues today. Although a general consensus supports both engagement of the PRC and commitment to the security of Taiwan, Washington is becoming increasingly divided into two camps: those who see China as the next major market for the United States, and those who see China as the next major threat to the United States. These concepts are not necessarily mutually exclusive, but they form the basis for lasting tensions within the China-watching community.

More ominously, the sort of bitter ideological—and often personal—conflict seen among Soviet specialists during the Cold War is beginning to emerge within the China-focused community both inside and outside of government. This trend emerged during the sharply partisan later years of the Clinton administration and continues today, marked by periodic news leaks and personal attacks on individual China specialists and policymakers. The continuation of this trend will be chilling to the kind of open, honest, and informed discussion necessary for formulating an effective China policy. It may ultimately prove dangerous for managing a situation as sensitive as that of the Taiwan Strait.

FINAL ANSWER?

WHEREAS Mao and Deng Xiaoping were willing to wait 50 to 100 years for Taiwan's integration, today's PRC regime expresses a growing sense of impatience. In light of Taiwan's recent political changes, the CCP increasingly believes that time is not on its side—that Taiwan is moving further from the mainland with each passing year. Over the last few years, reports have surfaced about a possible PRC timeline for resolving its dispute with Taiwan. Beijing's February 2000 "white paper," for example, characterized the situation in the Taiwan Strait as "complicated and grim," suggesting a growing pessimistic sentiment that war is inevitable.

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More ominously, the paper also enunciated a new reason for using force to resolve the Taiwan issue: the island's indefinite refusal to negotiate reunification. This statement suggested a fundamental change in Beijing's policy toward Taiwan. In the past, the PRC threatened violence should Taiwan depart from the status quo. The 2000 white paper, however, suggests that the PRC would now consider using force should Taiwan cling to the present system.

During the April spy-plane incident, moreover, certain elements of Chinese society, including the youth and the urban intelligentsia, demonstrated growing feelings of nationalism and resentment toward the United States, fueled by state propaganda. Such popular sentiments could drive the CCP to take a harsher approach toward Taiwan and the United States. Should this nationalism grow virulent, or should an economic downturn shake the government's legitimacy, the regime could be compelled to take drastic action toward Taiwan to save itself.

At the same time, Taiwan has displayed increasing impatience with its current lack of international status. As a major player in global trade and investment and as a burgeoning democracy, Taiwan desires a commensurate role in world affairs and an enhanced international profile. This desire will likely increase, clashing with the PRC's strategy of isolating the island.

The current situation in the Taiwan Strait—the escalating tensions, the lack of meaningful dialogue, and the increasingly hostile rhetoric—suggests that the U.S. approach to the region requires a wholesale review. In the end, Mao's oft-quoted warning about the need for patience in addressing the issue of Taiwan is perhaps more relevant today than it was when Mao first uttered it. Thus the best option for the United States is to help create incentives (and disincentives) that will encourage both Taipei and Beijing to maintain the undefined status quo—a middle ground between reunification and independence. Each side dislikes the current situation for its own reasons, but for both it is the best choice among unhappy alternatives.

The United States must use its diplomatic skill and military muscle to dissuade the PRC from continuing its coercive course toward Taiwan and persuade it to pursue a more constructive and conciliatory approach. Meanwhile, Washington should seek ways for Taiwan to

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participate in the international community while accepting the inevitable limitations of its indeterminate status.

The United States must also conduct more dialogue with key regional allies and friends, both to consider their views and to take the Taiwan situation out of its narrow bilateral context. Washington should focus on and publicize the hopeful signs of cultural interaction and commercial links between the two sides. At the same time, the United States must continue prudent contingency planning and maintain an active military presence in the region to sustain deterrence. It should also consider a more active diplomatic role to help facilitate future cross-strait discussions on political, military, and other issues.

For the past two decades, the essence of U.S. policy in the Taiwan Strait has been to preserve peace and stability in the region while indefinitely deferring the ultimate resolution of the problem. This approach has led to 20 years of prosperity and the proliferation of commercial contacts between Taiwan and the mainland. Yet today this stability shows unmistakable signs of strain. Unless both sides of the strait act creatively, Washington may find that the future it sought to postpone has already arrived.

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China's Coming Transformation

George Gilboy and Eric Heginbotham

THE MAIN EVENT

SOCIAL FORCES unleashed by China's economic reform over the last 20 years are now driving inexorably toward a fundamental transformation of Chinese politics. Since the suppression of the 1989 student protests in Tiananmen Square, China's leaders have struggled to maintain the political status quo, even while pursuing rapid economic reform. The result today is a nonadaptive, brittle state that is unable to cope with an increasingly organized, complex, and robust society. Further efforts to resist political change will only squander the benefits of social and economic dynamism, perpetuate the government's costly battle to contain the populace, drive politics toward increasingly tense domestic confrontation, and ultimately threaten the system with collapse.

Many of today's senior Chinese officials recognize this dilemma but have powerful personal motivations to resist change. The next generation of Chinese leaders, however—set to take office in 2002–3—is both more supportive of reform and less constrained by Tiananmen-era political baggage. These new leaders will likely respond to the dilemma, therefore, by accelerating political liberalization.

This does not imply that China will soon become a Western-style democracy. Rather, the coming steps in reform will likely include

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measures to legitimize independent social organization, give citizen groups increased input in policymaking (in exchange for some limits on their activities), and develop greater intraparty democracy. These changes will be difficult, and in the near term, they are as likely to throw China into domestic turmoil as they are to create a stable partial democracy.

This coming political reformation is *the* main event in China, and it has critical implications for Sino-U.S. relations. Events such as the recent collision of a U.S. spy plane with a Chinese fighter jet near Hainan Island, the detention of foreign academics in China, or even rhetorical skirmishes across the Taiwan Strait cannot by themselves derail or even significantly delay the forces of change. The event most likely to disrupt the coming reform effort would be the emergence of a clearly adversarial relationship between the United States and China—a new cold war. Such a development would reinforce the position of Chinese conservatives and militarists and weaken the forces that are currently driving change. Accordingly, U.S. policy should be restrained and carefully calibrated to maintain regional security while encouraging continued reform and liberalization in China.

BRITTLE STATE

China's current leaders view politics through the prism of two central episodes in their political lives: the Cultural Revolution of the mid-1960s and the 1989 Tiananmen Square demonstrations. The Cultural Revolution made today's leaders averse to radicalism and mass action, and the Tiananmen demonstrations made them wary of social and political liberalization. These two experiences have framed the boundaries of "safe" and "stable" politics in China—not too radical, not too liberal.

In the days leading up to the Tiananmen crackdown, the Communist Party's senior leaders came to believe that the demonstrations, if left unchecked, could lead to the violent overthrow of party rule and the onset of social chaos. Firmly implanted in their minds was China's vivid history of small gatherings growing into large movements, often followed by violence and unrest. To these leaders, the Tiananmen demonstrations confirmed that limited political dissent could rapidly

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attract support from other groups seeking to vent their own dissatisfactions. Indeed, the student gatherings in 1989 began not as protests but as spontaneous mourning for the death of the relatively liberal party leader Hu Yaobang. Once gathered, however, the students quickly added calls for accelerated economic and political reform. Senior party leaders were caught off-guard by the students' vehement criticism and swift organization. They were even more alarmed by the other groups that coalesced in support of the students, especially well-organized urban workers. After weeks of demonstrations and fruitless negotiations, the protesters were finally dispersed by the military, at the cost of many lives.

In the years since, China's leaders have shown little tolerance for challenges to their authority. Although Western headlines tend to focus on Beijing's tough stance against public protests, even more important for China's future may be the regime's general intolerance of independent social organization. The government has not permitted the rise of representative institutions capable of giving people a feeling of participation or investment in the governing system. This unwillingness to deal with groups that are not dominated and controlled by the party locks the state in a constant struggle to hold back a rising tide of self-organizing social and economic entities.

The political rigidity of the current regime stands out when compared to the flexibility of Deng Xiaoping's 1980s leadership. Before 1989, Deng had promoted intraparty democratization, village elections, and the devolution of power to the provinces. He had even promoted the separation of party and state to reduce the Communist Party's interference in administrative affairs. In contrast, the current generation of leaders, including President Jiang Zemin, has eschewed further political and institutional reform in favor of accelerating economic reform.

Despite the current regime's unwillingness to move forward on political reform, Chinese politics and society have remained more stable than most foreign observers predicted in the aftermath of Tiananmen. Since the 1989 uprising, no political dissident movements have been able to inspire similar widespread public support. This quiescence is not simply attributable to the coercion and suppression of civil society. Over the last ten years, Beijing has sustained its nonadaptive state

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by scoring a series of economic and social successes that have appreciably improved the quality of life for most Chinese.

The most important of these achievements has been increased material prosperity. According to official statistics, China's annual real GDP growth averaged 9.7 percent between 1989 and 2000. In aggregate terms, real urban incomes more than doubled over the same period. For many Chinese families, the increased prosperity of the 1990s can be measured by the new range of goods that they can now afford. The prizes of the 1980s included basic items such as refrigerators and television sets. Today, many Chinese families find computers, designer clothes, mobile phones, and home-entertainment centers within their reach as well.

Beijing is increasingly unable to sustain both social stability and economic growth.

This growing prosperity is the result of the Chinese government's commitment to structural economic reforms. Measures to legitimize private capital and grant private firms the same legal rights as state-owned businesses have laid the foundation for sustained, market-based growth. Today, more than 40 percent of industrial output comes from private companies, and more than 30 percent of nonagricultural employees work for private or mixed-ownership firms. (In contrast, virtually no privately owned industrial firms existed in 1979 when Deng's economic reform began.)

Beijing has also achieved greater integration with the global economy. China's international trade has more than quadrupled, from $112 billion in 1989 to $474 billion in 2000, and no other country in the world, besides the United States, receives more foreign direct investment. Between 1996 and 1999, China's FDI totaled $126 billion—more than six times that of Japan. Beijing's commitment to join the World Trade Organization (WTO) will further open the economy to foreign trade, investment, and international supervision.

Along with these economic reforms have come greatly expanded personal liberties. Individual Chinese, especially city-dwellers, are now free to create their own lifestyles: they can move about the country, start their own businesses, and express themselves on a wide range of issues. Those who wish to travel abroad can now obtain passports to

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do so, provided they have enough money. Even China's controversial one-child policy, often a target of criticism in the West, has been relaxed, first in rural communities and more recently in Shanghai.

Jiang's regime has been able to achieve all this while delivering what has been perhaps the most stable decade in the last 150 years of China's tumultuous history. This stability taps into a deep-seated longing among many Chinese to leave behind the misery of past foreign invasions, civil wars, and violent mass political movements. Not only has it provided an environment conducive to economic growth, but it has made most people feel secure that today's newfound wealth can be enjoyed tomorrow.

These achievements have offered both the means and the incentive for new groups to form and organize. But the Chinese leadership, fearful of political dissent and social organization, has been unwilling to adapt politics to new social realities. This reluctance has resulted in a brittle state that is increasingly unable to sustain the social stability and economic growth of the past decade.

ROBUST SOCIETY

ARMED WITH greater wealth and liberty, Chinese society has gained a spirited life of its own, generating a constant stream of both formal and informal organizations. Most of this activity—from labor movements to consumer advocacy to animal-rights activism—is normal and healthy in any market-based economy. But when social dynamism is suppressed, some of its energy is channeled into unhealthy activities, such as violent protest. All of this requires the state to find new ways to understand, mediate between, and govern groups in society. One thing is certain: the regime's current methods of social control will not work.

The state's ability to control and coerce the populace has withered. For example, urban neighborhood committees, one of the regime's key means of monitoring its citizens, have dramatically declined in power and relevance. These committees once dominated life in the pervasive housing tracts run by state-owned companies. Through their connection to the work unit, or *danwei,* they ruled over critical aspects of everyday life, such as housing, employment, and benefits,

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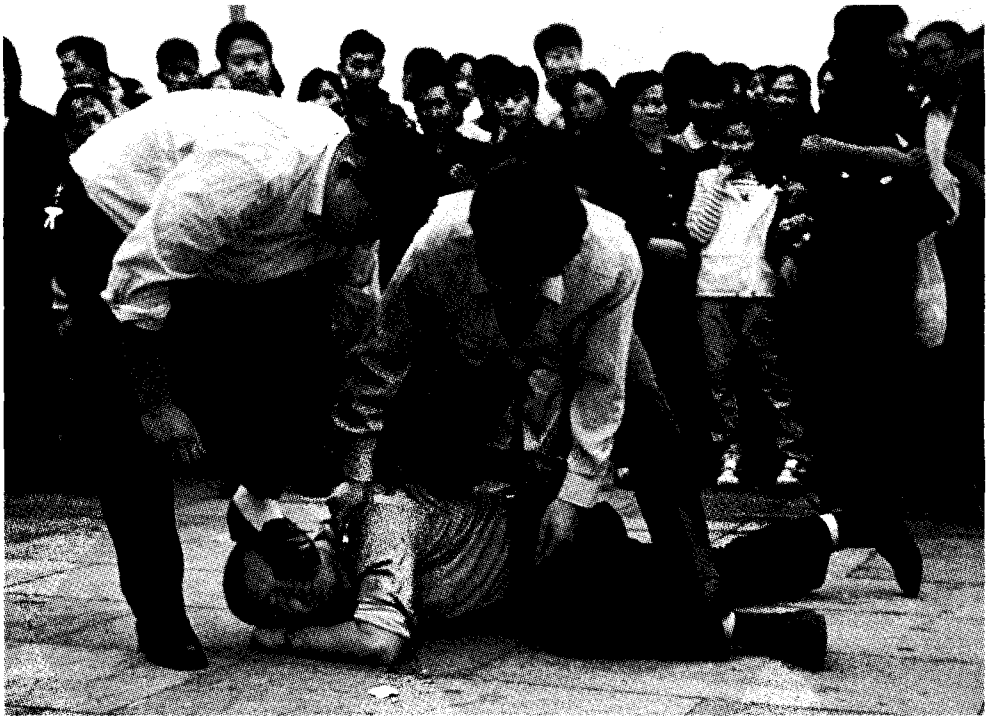

AP/WIDE WORLD PHOTOS

The brittle state fights back: arresting a Falun Gong protester, Tiananmen Square, Beijing, October 1, 2000

controlling society at the neighborhood level. But over the past two decades of economic reform, rising incomes, a growing private sector, the contraction of state firms, and the privatization of housing have all conspired to weaken the neighborhood committee system. In the countryside, the decline of collective farming has led to a similar relaxation of state control over the lives of individuals.

A fundamental shift in the balance of power between Chinese state and society is underway. With each passing day, the government understands less about its own people, while its power to affect social outcomes wanes. Meanwhile, the number of "actively dissatisfied" groups has grown. In 1989, political dissent was largely limited to activist students, a few reform politicians, and some urban workers. Today, however, new powerful actors have emerged to press for their own interests.

Farmers. With increasing frequency, Chinese farmers are organizing to protest corrupt local officials, onerous and arbitrary taxes, and extreme poverty. In recent months, farmers have attacked tax collectors, blocked roads, and fought with officials and police. In April 2001, for example, more than 600 police and paramilitary troops stormed the

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southern village of Yuntang, where villagers had barricaded the only road into town and steadfastly refused to pay taxes that they called illegal and unreasonably high.

The unemployed. As economic reform continues, millions of Chinese workers are being laid off each year with little hope of reemployment or adequate social welfare support. In some cities, unemployed workers are now joining together in large-scale protests, involving as many as 20,000 people at a time. Such demonstrations wracked the northeastern cities of Huludao and Liaoyang in the spring of last year. And similar disturbances now occur almost daily in cities and towns throughout the country.

Consumers. Today's Chinese consumers frequently speak out and organize against defective products, financial scams, and official corruption. When these actions are aimed at state agencies or firms, they highlight the government's conflicts of interest as well as the weakness of economic and regulatory institutions. Consumer dissatisfaction may soon become more apparent in China's ill-regulated domestic stock market, in which the government has been encouraging individual investment. Most Chinese investors interpret this encouragement as government assurance that they will make money, and they are likely to hold the government, not the market, responsible for any major shakeout.

Industry associations. Because China's official industry associations are weak and dominated by the Communist Party, they are unable to mediate effectively between industry and government. Yet some industry leaders have coalesced to force the central government to change policies on taxes, international trade, and price reforms. Still, these groups are neither formal nor transparent to the rest of society. They do not fully represent the collective interests of their sectors, nor are they held accountable for their activities. Private entrepreneurs and even state-enterprise managers are now pressuring the government to grant greater independence to official industry associations or to formally recognize unofficial ones. Ironically, working with democratic, independent industry groups is not unknown in China. The central government (and many local governments) already regularly meet with chambers of commerce and industry associations that represent foreign firms in China, often consulting them on key regulatory and policy issues.

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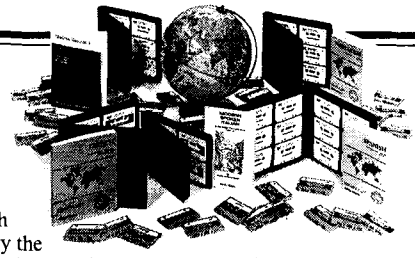

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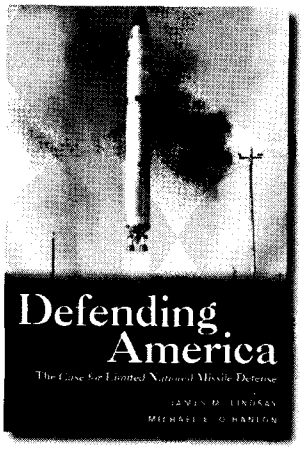

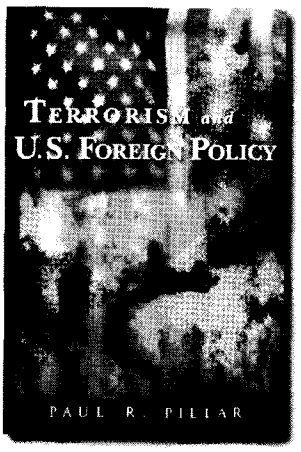

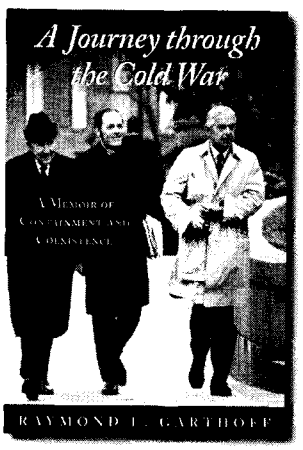

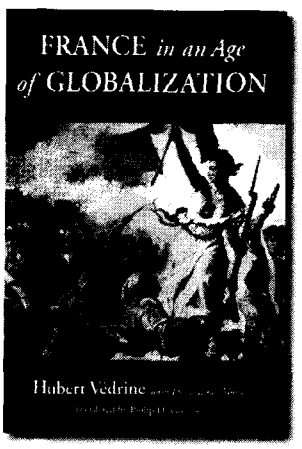

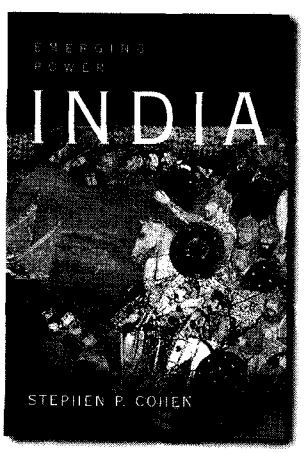

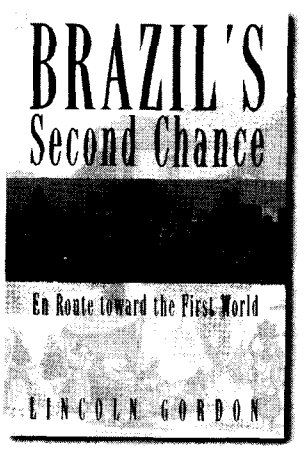

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Labor unions. Although China's official labor unions, like its formal industry associations, are dominated by the Communist Party, many of them are now pressing for greater organizational independence. And despite the arrests of many would-be organizers of unofficial unions, attempts to establish new, fully independent labor groups continue. Even foreign firms in China have asked the government to allow the formation of stronger, more representative unions because they believe such groups will help their managers better negotiate with their workers.

Religious and spiritual movements. The rise of the Falun Gong is only the most visible indication of resurgent spiritualism in China. Traditional religions, mystical movements, and cults have attracted millions of followers in recent years. Some observers estimate that 30 million Christians now live in China, about half of them belonging to underground churches. In Beijing alone, the number of unauthorized churches has reportedly grown from 200 in 1996 to around 1,000 today. Despite a recent government crackdown that destroyed hundreds of unsanctioned churches and temples, the state will be hard pressed to keep up with today's ever-quickening pace of spiritual activity.

A fundamental shift in China's balance of power is underway.

Special-interest groups. A variety of nascent special-interest groups, ranging from environmental and animal-rights organizations to regional soccer clubs (which are sometimes prone to hooliganism), now place new demands on the state for resources and attention. For example, environmental groups—some with nationwide reach—have sponsored direct actions such as tree-planting programs and petitions calling for better municipal waste management. Such groups provide important services to society, but their potential for mobilizing people on a regional or even nationwide scale makes the government nervous.

Separatists. Finally, separatist groups continue to challenge the regime's authority directly. Tibetans have long resisted Chinese rule, sometimes with peaceful protest, sometimes with violence. Muslim separatists in the westernmost province of Xinjiang receive training and weapons from Muslim groups in Central Asia and are engaged in armed confrontation with the state. Their most militant elements attack police, soldiers, and other government officials, and the state

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has responded with equal force. According to estimates from international observers, 210 people were sentenced to death for separatist activities between 1997 and 1999.

It is becoming difficult for the Chinese government to ignore or conceal these social changes. Information on even the most sensitive topics is available from foreign sources across increasingly porous borders, and even China's state-run media have become a regular source of news on many domestic problems. As a result, nearly everyone in China today is aware of the beneficial work of entrepreneurs, consumer groups, and animal-rights activists. They also receive detailed reports about railroad disruptions and factory seizures by disgruntled workers, as well as pervasive corruption among village officials. Increased access to information has helped create a public opinion in China, and the regime already feels obliged to respond.

RISING TO THE CHALLENGE

COPING WITH China's increasingly organized and informed society is the greatest challenge facing Beijing's next generation of leaders. The nation's new leaders will seek ways not only to maintain continued economic growth but also to reinvigorate legitimacy and popular support. A key element of this reformation will be greater acceptance of and dialogue with legitimate independent associations. Both state and society would benefit from the success of such efforts. The state would be better able to govern, and society would enjoy greater pluralism and new limits on state intervention.

China's new leaders will likely choose change over retrenchment for three reasons. First, many senior officials already recognize that the task of confronting society is becoming more burdensome and difficult. The stability of the last decade is showing signs of wearing thin. According to a speech attributed to Prime Minister Zhu Rongji, China suffered 117 incidents of armed, violent protest last year. Those incidents resulted in more than 4,300 casualties, of which more than half were party cadres and government officials. In some of these cases, thousands of security personnel were mobilized before order was restored.

Although these protests have not yet reached the size and significance of the 1989 Tiananmen demonstrations, they have been enough to

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lead some party officials to question Beijing's current inflexibility on social and political issues. For example, several senior provincial police cadres—overwhelmed by their duties to contain the Falun Gong—have reportedly petitioned the leadership to take a more accommodating approach toward the spiritual group. For some business managers, many of whom are also party members, the crackdown and its associated political study sessions have diverted attention from pressing administrative, commercial, and management problems. Indeed, dissent within the party on the Falun Gong issue may run deep: even some top officials may believe that the government's policy has gone too far.

A second incentive for political reform is that the continued suppression of social organization and institution building threatens to hamper economic development. Weak institutions contribute to waste and inefficiency, discourage investment, and limit the prospects for further rapid growth. Foreign firms in China have long complained about the lack of market information, clear regulations, enforceable contracts, and good coordination among suppliers. The costs of these inadequacies are also high for Chinese companies. Weak economic institutions—such as the party-dominated labor unions and industry associations—cannot effectively exchange people and information, pool resources, set standards, present policymakers with unified industry views, or even adequately interact with one another. These shortcomings result in fragmented industries, isolated firms, and poorly informed managers, all of which raise costs and discourage investment in new, productive businesses.

The weakness of economic institutions also threatens to retard the technological learning and innovation that is critical for future productivity gains and economic growth. Innovation is not simply a matter of money, science, or market competition—although all three elements are essential. Innovation also requires close interaction among firms, universities, research and development institutes, and all levels of government. In many of the world's most innovative countries, this interaction often occurs through regional development agencies, industry and professional associations, and sector-specific financial consortia. Yet in China, despite appeals by industrial leaders and even state science and technology officials, the regime's reluctance

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to accept independent civil society has stifled the development of such organizations. Beijing's Zhongguancun area—often called China's Silicon Valley—has generated little real innovation, largely because it lacks the dense interfirm networks and cooperative business culture that has made America's Silicon Valley so successful.

The third reason that China's new leaders will likely choose change stems from their personal affiliations and career interests. The clear front-runner to replace Jiang is Vice President Hu Jintao, whose political background is in the Communist Youth League, a relatively liberal wing of the party. Even though Hu may not emerge as the primary driver of political reform (and indeed may take a relatively cautious position on that issue), he will likely try to promote an unprecedented number of officials with Youth League and other reform-related backgrounds. This drive may be complemented by the efforts of today's reform-minded leaders (such as Zhu Rongji and Li Ruihuan) to promote their own protégés.

Regardless of who gains which specific posts in the government, powerful political motivations may also drive the new leadership toward reform. In the decade since the Tiananmen Square crisis, many hard-line leaders have passed from the scene, and those that remain have become more vulnerable to major revisions of the verdict on that issue. Accordingly, those untainted by the legacy of Tiananmen are increasingly tempted to leapfrog over their seniors by seizing the banner of reform. This trend has already begun, with the disclosure of the *Tiananmen Papers* and other documents now being smuggled out of China by factions of the Communist Party.

CONTAINING CHINA'S REFORM?

For China's next generation of leaders, political reform will center on allowing independent social organizations to formally represent their interests, strengthening intraparty democracy, and increasing the separation of the Communist Party from the state. These measures will recast relations between state and society and could be the first steps toward greater political pluralism. The experiences of South Korea, Mexico, and Taiwan demonstrate that a variety of paths can lead from one-party rule toward political liberalization. None of

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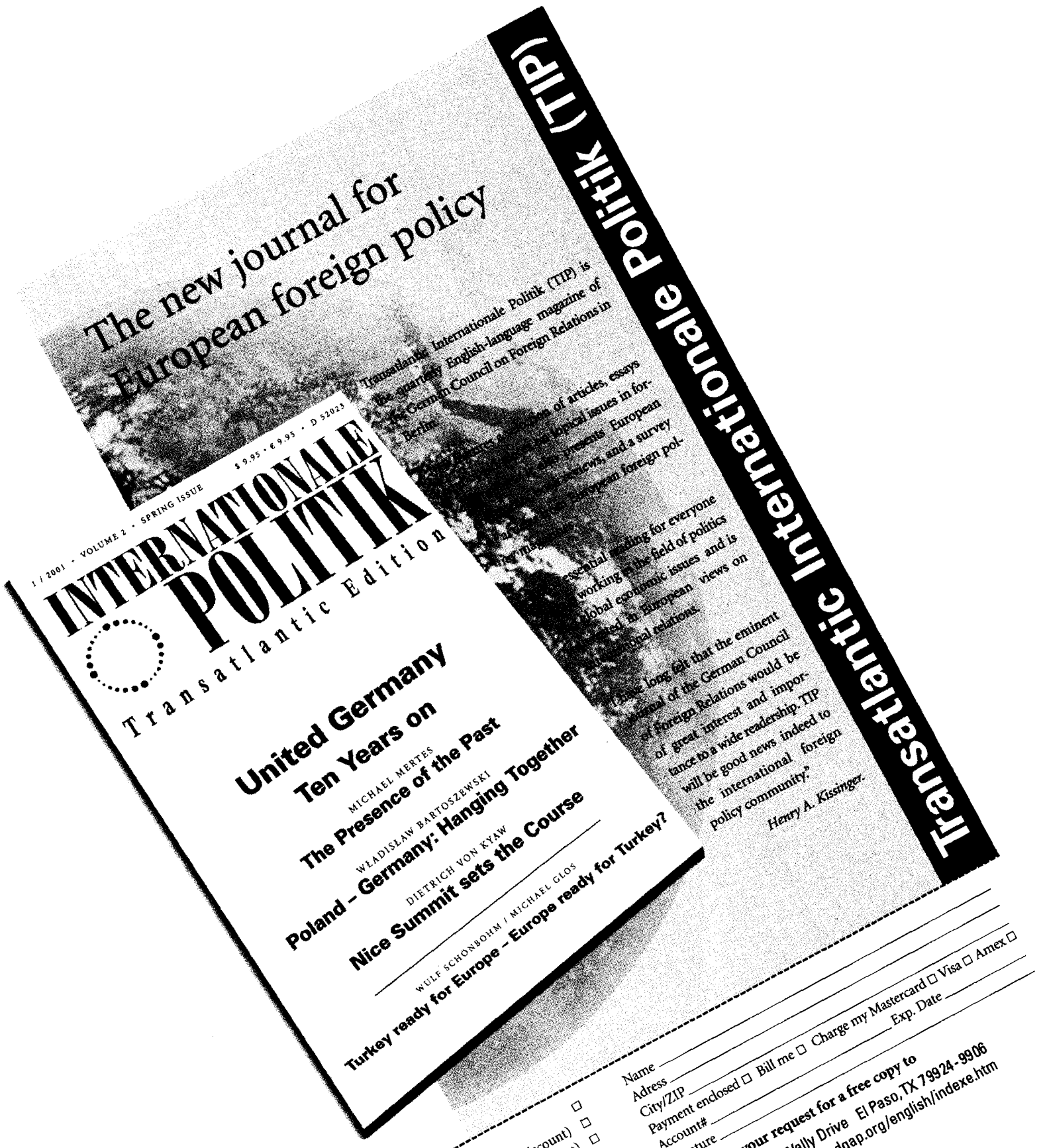
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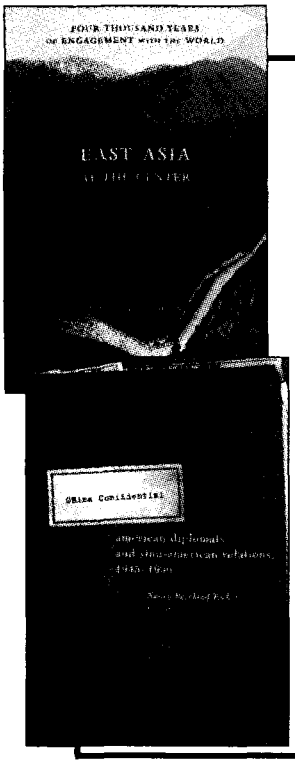

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them offers a quick and painless transition to full democracy. Rather, they entail a gradual conciliation with society's new forces and a phased-in introduction of democratic institutions and values.

Nor is success guaranteed. It will be difficult to govern China's huge, powerful, and potentially fractious society during the inevitable disruptions of a major transition. Even if intent on reform, China's new leadership could botch the job. If it does, the China of tomorrow could look more like today's Indonesia or Yugoslavia than South Korea or Taiwan. Whatever the outcome, China is on the cusp of more than just a change in leadership personnel. The coming set of reforms is likely to set in motion a process of political change that may be longer and more tumultuous than anyone has yet imagined. Despite these risks, however, it is in the interest of Beijing's next generation to attempt reform. And it is in the interest of the United States to encourage them to do so.

The advent of a new cold war between the United States and China, however, would discourage Beijing's new leaders from pursuing political reform. Explicitly adversarial Sino-U.S. relations would validate Chinese conservatives' arguments about American intentions to weaken China and would leave Chinese liberals open to charges of treason. Moreover, even tomorrow's moderate leaders would be unlikely to run the high risks of reform if they feared the United States might exploit Chinese political divisions. Hence, although the United States needs to defend its legitimate interests in East Asia, it should do so in a restrained manner that provides the least ammunition for reactionary critics in China. In short, Washington should avoid a containment policy that would actually contain China's reform process.

Although dramatic change may still be several years away, moderation and restraint in U.S. policy are needed now. Today's reform-minded leaders are struggling to promote their protégés to key positions in preparation for the coming political transition. The next generation, which will govern China until at least 2008, is still being forged, and specific personnel selections will have a decisive impact on the prospects for reform. It will be difficult, however, for relatively liberal officials to rise to key positions if Sino-U.S. relations descend into cold war.

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The United States can take steps to avoid increasing tensions without compromising its core interests. One of the least costly—and most effective—measures is rhetorical moderation. Although suggesting that China could become a "strategic partner" (as the Clinton administration did) was premature but benign, labeling China a "strategic competitor" (as some in the current administration have done) is both premature and pernicious.

The United States should also focus greater attention on the strategic and diplomatic implications of its tactical military activities. Although the U.S. military presence in East Asia generally enhances regional stability, some types of military activities can have adverse effects. China's handling of the recent spy-plane crash near Hainan angered most Americans. Yet American surveillance close to Chinese borders had been conducted at a Cold War level of intensity for a year before the incident occurred. Such U.S. activities may not violate international law, but the intensity and manner in which they have been conducted recently has created an image of a hostile United States without commensurate gains for American security interests.

Indeed, a more measured approach to secondary security interests would enhance U.S. leverage on more vital issues, such as halting the proliferation of missiles and weapons of mass destruction (WMD) and encouraging a peaceful resolution of the standoff across the Taiwan Strait. Confrontation could convince China's leaders that WMD proliferation is in their national interest, whereas a firm but more businesslike relationship would help persuade them that it is not. By focusing on core issues, America's voice on them will be amplified.

Chinese civilian leaders, especially those about to take the helm in 2002–3, do not want a new cold war. Confrontation with the United States would jeopardize China's economic reform program and continued prosperity. A cold war would also diminish the civilian leadership's authority relative to that of the military. Having struggled for 20 years to curb the army's role in domestic policy, civilian leaders would be loath to invite the resurgence of military influence that would accompany a descent into cold war.

Moreover, the civilian leadership's ability to use confrontation with the United States to gain popular support for the party is severely

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limited. Beijing does use historical education to promote the ideas of national unity and past victimization. The government has also permitted the limited expression of social anger immediately following events such as the accidental U.S. bombing of the Chinese embassy in Belgrade. But in all such cases officials have moved quickly to contain domestic passions for fear that even nationalist movements may ultimately threaten the regime itself.

Change is the main event in China, and America should welcome it. Chinese hard-liners will not be able to stop the coming political reform—unless they are aided by an adversarial attitude from the United States. As a great power, the United States can best serve its own interests, as well as those of the Asian region, by behaving with the restraint and grace befitting its status.

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Follow the Money

William F. Wechsler

SECRETS AND LIES

As the international financial system has expanded, so too have financial abuses—money laundering, tax evasion, and rogue banking. Globalization is now changing the nature of these age-old problems, threatening to undermine U.S. diplomatic, economic, and even strategic interests. Multilateral efforts have begun to combat these abuses and have already achieved some impressive results. But time is running short for the Bush administration to act, and its decisions now will determine whether these multilateral efforts will continue.

Financial abuses have been around for as long as there have been finances to abuse. Money laundering and tax evasion are often viewed as complicated, boring matters hinging on the minutiae of tax codes and regulatory laws. But that image masks a destructive, often bloody reality. Drug cartels, arms traffickers, terrorist groups, and common criminal organizations use banks to launder their dirty money, making it appear as the product of legitimate business. Tax evaders structure transactions to hide their wealth from legitimate authorities, weakening national tax bases. Corrupt government officials exploit banks to facilitate their own misdeeds, breeding a lawless business culture and undermining public confidence in national financial systems. And the underregulated banking systems that facilitate these abuses have sparked financial meltdowns around the world.

William F. Wechsler was Special Adviser to the Secretary of the Treasury from 1999 to 2001. He previously served as Director for Transnational Threats on the staff of the National Security Council and as Special Assistant to the Chairman of the Joint Chiefs of Staff.

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The United States and many of its economic allies have long understood these threats and know that "following the money" can unearth big vulnerabilities in criminal syndicates. Over the years, their governments—remembering that Al Capone was put behind bars for tax evasion rather than murder—developed legal and regulatory regimes to help detect and deter financial abuses. Banks and other financial-service providers were regulated and supervised. Money laundering and tax evasion were criminalized, banks were required to identify and report suspicious transactions, company-incorporation and trust-formation laws were passed to encourage transparency, and law enforcement agencies developed specialized investigative skills.

As criminal organizations began to operate across international borders, national regulators and law enforcement agencies began to share information. In recent decades, international standards for financial transparency were established through such multilateral organizations as the Financial Action Task Force (FATF) and the Basel

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Committee on Banking Supervision. But these efforts were not truly global. For the most part, only wealthy countries with well-developed financial systems participated; smaller and less-developed countries were mainly absent from these discussions. This did not seem a problem, however, because most of the world's funds routinely passed through a small number of highly developed economies. In comparison, the banking systems in the developing and then-communist nations were exceedingly small and not globally integrated.

Even among nations with well-developed financial systems, however, a few countries took different approaches. Switzerland and the Cayman Islands, for example, were notoriously reluctant to disclose information on their secret bank accounts. Moreover, they shared certain features that made their banks attractive to money launderers and tax evaders: both possessed stable political and economic environments, professional work forces, and—most important—physical proximity to more tightly regulated financial centers. A banker in London or Frankfurt needed only to take a brief plane ride with a suitcase full of cash to a colleague in Zurich. Similar trips were regularly made from New York City or Miami to Grand Cayman Island.

These services were enormously profitable. The Cayman Islands, with 35,000 inhabitants, saw its banking assets eventually exceed $670 billion. It became home to 570 banks and trust companies, 2,240 mutual funds, 500 captive insurance firms, and 45,000 offshore businesses. Switzerland, meanwhile, became preeminent in global asset management, controlling up to $2.3 trillion under management, more than half from foreign customers.

Under international pressure in recent years, however, Switzerland and the Cayman Islands have begun restricting their bank secrecy regimes. The Caymans also have begun (albeit slowly) to cooperate with foreign law enforcement, particularly with the United States. Switzerland still refuses to cooperate on international tax matters but is steadily improving its efforts against money laundering. Indeed, Swiss measures to combat money laundering are now superior to U.S. approaches in some areas.

But this is not the end of the story. Just as the international consensus among the leading financial centers began making real

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progress in the 1990s, another force emerged that undermined those efforts and raised a whole new set of problems: globalization.

MONEY FOR NOTHING

THANKS TO globalization and advances in banking technologies, distant countries are now just a mouse-click away. The bank next door may be doing business halfway around the world. This development has opened up great opportunities for nations that were once too small, too bereft of natural resources, or too physically remote from the rest of the world to benefit significantly from the global economy. A remote, poor country can now make easy money by following the example of Tuvalu, a South Pacific nation that sold its Internet suffix ".tv" to an American company for $50 million (as well as a 20 percent stake in future revenues) and leases its telephone prefix, 688, to a telephone-sex operator for $1.5 million per year.

The lure of quick wealth has generated other ideas as well. For money launderers and tax evaders, the proximity of Switzerland and the Caymans to major financial centers is not as important as it once was. Other countries soon figured out that they too could attract dirty money just by passing a few laws. These laws included provisions to establish strict bank secrecy, criminalize the release of customer information, and bar international law-enforcement cooperation. Other laws involved licensing "brass plate" banks (which have neither physical presence nor personnel) and allowing the creation of anonymous companies and asset-protection trusts, some of which can give ownership to whomever happens to be holding the relevant documents at that moment. Some countries also created offshore regimes with special rules, including tax advantages, that are available only to foreign customers. Others established "economic citizenship" programs, which sell passports to anyone who can afford them, and Internet gambling licenses, which provide convenient cover to those who wish to move large amounts of money. These nations then worked to help their banks set up relationships with established banks elsewhere—an easy matter given modern banking and communications technologies. All that was left was to set up Internet sites touting the advantages of offshore banking, sit back, and watch the registration and

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licensing fees accumulate. Not surprisingly, almost none of these countries bothered to establish the financial supervisory institutions or examination mechanisms that even approached international standards.

The result was a vast proliferation of rogue banking. In the 1990s, remote South Pacific island nations including Nauru, Niue, and Vanuatu took this path to quick wealth. Small Caribbean nations such as Dominica, Antigua and Barbuda, and Grenada also joined in. From the Seychelles in the Indian Ocean to Bahrain in the Persian Gulf, a new breed of underregulated financial centers moved from the fringes of the international banking system to full integration into the global economy. Even wealthier countries such as Panama, Israel, Cyprus, and the Philippines—nations that had long-standing aspirations for international banking but inadequate measures to prevent money laundering—found themselves awash in questionable funds.

At the same time, many emerging markets were receiving previously unimaginable influxes of legitimate foreign investment, much of which was channeled through underregulated banking systems. Local financial markets were expanding wildly and attracting international bankers, for whom the prospective returns far outweighed the risks of doing business with such shaky institutions. The growth of international criminal organizations, drug cartels, and terrorist groups also strongly contributed to the proliferation of rogue banking. In turn, these underregulated financial institutions became prime conduits for funds flowing out of developing countries struggling with economic transition, crime, and corruption. Nowhere was this more evident than in the post-Soviet states. Funds from organized crime, government kickbacks, widespread tax evasion, the rape of natural resources, and old-fashioned legal capital flight all went to banks promising secrecy. Technological advances allowed rogue banking to flourish in a globalized world, but demand for no-questions-asked financial services drove the supply.

HIDE AND SEEK

OVER TIME, U.S. officials realized that these developments presented a growing threat to American interests. Weak banking systems and poor supervision have long been recognized as an underlying cause of financial crises and economic downturns around the world. But not

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until the 1997 Asian financial crisis did policymakers begin to ask difficult questions about underregulated financial centers. These questions touched not only on the structural weaknesses revealed by the crisis—such as lack of transparency, distortions in resource allocations, and endemic corruption—but on the scale and direction of capital outflows once the crisis had emerged. Policymakers also wondered whether financial abuses might undermine the credibility and efficiency of the international financial system. This subject was put high on the agenda of the Financial Stability Forum (FSF), which the G-7 group of rich industrialized nations established after the 1997 crisis to help promote international financial stability, improve the functioning of markets, and reduce systemic risk.

Developing countries alone lose $50 billion in taxes each year to financial abuses.

The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) have also begun to assess the extent and damage of financial abuses. For example, IMF Managing Director Michel Camdessus estimated in 1998 that money laundering represented two to five percent of global GDP—that is, between $800 billion and $2 trillion per year—an amount large enough to merit the attention of policymakers. Among the deleterious effects of such abuses, he noted, are inexplicable changes in money demand, greater risks to bank soundness, contamination of legal financial transactions, and greater volatility of international capital flows and exchange rates. The OECD came to similar conclusions that year, pointing out that harmful tax practices can distort trade and investment, erode national tax bases, and undermine the fairness of tax structures. Oxfam, an international antipoverty organization, has estimated that developing nations alone lose $50 billion each year in taxes due to these practices.

Because of globalization, even the strong U.S. economy can be affected by global financial abuses. Experts estimate that the U.S. Treasury loses $70 billion annually through offshore tax evasions by individuals. The result is a disproportionate tax burden on law-abiding citizens and fewer resources available for public spending or tax cuts. The 1999 scandal involving $7.5 billion of Russian funds moving

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illegally through the Bank of New York—with the complicity of senior bank officials—demonstrated that financial abuses from abroad can corrupt important U.S. institutions. And even without insider wrongdoing, U.S. banks are more vulnerable to abuse if wire transfers of dirty money have been bounced through underregulated jurisdictions before entering the United States—something increasingly easy to do.

As important as these economic effects are, however, they pale in comparison with the problems that global financial abuses present to U.S. law enforcement and national security. The Colombian black market peso exchange, for instance, is estimated to transmit $5 billion in drug money each year from the United States to Colombian drug traffickers through a complex series of trade and financial transactions. Domestic investigations of criminal finances are normally difficult enough, often requiring forensic accountants to sift through reams of bank transactions. But when a criminal's financial trail leads back to a foreign country that categorically refuses to share information, the investigation can end right there. With the globalization of the international banking system and the proliferation of underregulated foreign jurisdictions, U.S. law enforcement increasingly runs into this brick wall. Given their limited resources and previous bad experiences, U.S. investigators sometimes may not even attempt to seek information from some foreign countries.

Multinational crime networks rely increasingly on international financial mechanisms. In December 2000, U.S. intelligence and law enforcement agencies published the first International Crime Threat Assessment, which stressed the growing importance of "safe havens" for international criminal networks. Along with their utility in money laundering, these safe havens are especially useful as staging or transit areas for drugs, arms, and illegal immigrants. In Europe, German intelligence has identified Liechtenstein as a safe haven that some judges, politicians, bank managers, and investment advisers use for illegal financial transactions. Although Liechtenstein has vociferously denied these charges (published in 1999 in *Der Spiegel*) and successfully refuted some of the specific points made by the Germans, many experts believe that the report's general conclusions remain sound.

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The value of safe havens has not been lost on terrorists such as Osama bin Ladin, who rose to prominence due not to his military exploits but to his ability to raise, manage, and move money for Afghan rebels in the 1980s. He still derives much of his authority and influence from the money under his control. He is said to have inherited about $300 million, and his Al-Qa`ida organization maintains legal and illegal enterprises, collects donations from supporters, and illicitly siphons funds from donations to Muslim charitable organizations. The funds are moved through a variety of mechanisms, including underregulated banks in the Middle East and elsewhere, then often transferred into better regulated institutions after the funds' origins have been suitably obscured. In the trial of those accused of bombing the U.S. embassies in Kenya and Tanzania, witnesses described Al-Qa`ida bank accounts in such disparate places as Dubai, Malaysia, Hong Kong, and London.

Financial abuses are also affecting regime changes around the world. Corruption has always been unpopular among voters. But recently, revelations of secret accounts held in underregulated banks have helped topple governments. In the Philippines, for instance, President Joseph Estrada was impeached and driven from office this past January after it was revealed that he had opened a $10 million trust account under the assumed name of "José Velarde." In Peru, President Alberto Fujimori tried to remain in office even as his intelligence chief and adviser, Vladimiro Montesinos, was caught bribing political officials before becoming a fugitive from justice. Fujimori even led a search team through the Peruvian jungle for the benefit of television cameras. It was only after Swiss authorities announced last November that they had found and frozen $70 million linked to Montesinos that Fujimori had to flee. In Europe, too, financial abuses are undermining politicians. Revelations of secret political slush funds in Liechtenstein ruined former German Chancellor Helmut Kohl's reputation; it seems almost everyone associated with the late French President François Mitterrand is now reeling from investigations into slush funds involving the formerly state-owned oil company Elf Aquitaine.

Rogue banking can even affect key U.S. strategic interests, such as Russian economic and political development. According to the Russian Central Bank, $74 billion was transferred from Russian banks to offshore

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accounts in 1998, the year of the ruble devaluation and the Russian financial meltdown; $70 billion of that went to accounts at banks chartered in Nauru. The following year, newspapers reported that Nauru's banks were involved in the $7.5 billion that illegally moved from Russia through the Bank of New York. A single bank registered in Nauru was identified as the ordering party for more than $3 billion of those funds. Only a few years earlier, Nauru had been less than a footnote in the global banking system—and suddenly it became a factor in U.S.-Russian relations.

Or take sanctions, one of Washington's most important tools for dealing with states such as Iraq and Yugoslavia. The proliferation of rogue banking has made it harder to enforce these measures. Iraqi leader Saddam Hussein has found enough ways around U.N. sanctions to keep his regime intact more than a decade after the Persian Gulf War, often using foreign banks that choose to look the other way. Former Yugoslav President Slobodan Milošević, himself a former banker, used a complex web of financial safe havens (especially in Cyprus) to create offshore companies and accounts that helped him evade the bite of sanctions. One of Milošević's schemes involved moving more than $1 billion through a single account in a Cypriot bank between 1991 and 1995—money that helped fund his war machine and cause untold misery.

To be certain, New York, London, and other highly developed, well-regulated financial centers are no strangers to money laundering. It is unavoidable that much of the world's dirty money flows through these financial centers, given their size, the architecture of the international banking system, and the desirability of placing criminal funds where they can be of most use. But the United States and its partners have long recognized this problem and have been taking increasingly aggressive actions to curb money laundering and other financial abuses. The new problem lies in clamping down on underregulated jurisdictions and the new threats they pose to U.S. interests—and that requires a new strategy.

THE NAME (AND SHAME) GAME

The Clinton administration realized that any new approach had to focus on stemming the proliferation of underregulated jurisdictions and tackling those jurisdictions that were already established. The strategy also had to recognize the limits of traditional law-enforcement

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and regulatory channels as well as the relative ineffectiveness of previous diplomatic efforts. Furthermore, any strategy had to be global and multilateral, since unilateral actions would only drive dirty money to the world's other major financial centers. Yet Washington could not afford to take the "bottom-up" approach of seeking a global consensus before taking action; if the debate were brought to the U.N. General Assembly, for example, nations with underregulated financial regimes would easily outvote those with a commitment to strong international standards. Finally, the strategy had to be politically tenable, given the varied U.S. interests in many nations with underregulated financial sectors.

Led by Treasury Secretary Lawrence Summers, the Clinton administration worked with its allies to develop a three-pronged strategy focused on rogue banking, money laundering, and tax evasion. Three multilateral organizations—the G-7's FSF, the FATF, and the OECD—were asked to address these issues separately but to proceed on similar timetables so that they could conclude their work before the G-7 summit in July 2000. The objective was to "name and shame" those nations that had developed underregulated financial centers and threaten appropriate countermeasures if the pressure was not sufficient. The three efforts each followed a "top-down" approach in which nations committed to regulatory and law enforcement regimes would establish international standards and evaluative criteria before engaging with those who lacked the commitment.

The FSF comprised finance ministers, central bankers, and supervisory officials from 11 nations with advanced financial systems. Also represented were international institutions such as the IMF and the Bank for International Settlements, regulatory bodies such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions, and committees of central bank experts such as the Committee on Payment and Settlement Systems. The FSF aimed to compile a list of underregulated offshore centers, decide how to respond to new international developments, and assess their potential to contribute to instability. To these ends, the FSF created a survey that asked banking, insurance, and securities supervisors in both onshore and offshore centers about offshore laws and supervisory practices, the level of resources

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devoted to supervision and international cooperation, and the degree of cooperation. The FSF then grouped offshore jurisdictions into three categories, from high quality to low quality.[1] Its most significant conclusion was that "offshore financial centers that are unable or unwilling to adhere to internationally accepted standards for supervision, cooperation, and information-sharing create a potential systemic threat to global financial stability." Finally, the FSF identified key supervisory standards, recommending that the IMF take charge of deciding how to assess adherence to these standards and proposing ways to enhance compliance.

For its part, the FATF was responsible for reviewing the countries that resisted global efforts to combat money laundering, both offshore and onshore. This was an expanded mandate for the group, which the G-7 had established in 1989 to set and evaluate international standards against money laundering and which has since grown to include 29 members. The FATF developed 25 criteria for identifying uncooperative nations, focusing on bank regulation, customer identification, the reporting of suspicious activity, international cooperation, and the criminalization of money laundering. It then began to analyze the laws and practices of the 29 nations identified as meriting review. In turn, these nations were allowed to provide their own input and to challenge FATF assessments. In June 2000, the FATF issued a concluding report that identified systemic problems in 15 "noncooperative" jurisdictions and deficiencies in another 14.[2]

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[1] The FSF's "high quality" category included Dublin (Ireland), Guernsey, Hong Kong, the Isle of Man, Jersey, Luxembourg, Singapore, and Switzerland. The "middle quality" jurisdictions were Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Labuan (Malaysia), Macau, and Monaco. The "low quality" group comprised Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Belize, the British Virgin Islands, the Cayman Islands, the Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, the Marshall Islands, Mauritius, Nauru, the Netherlands Antilles, Niue, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Samoa, the Seychelles, Turks and Caicos, and Vanuatu.

[2] The FATF list of "noncooperative" jurisdictions included the Bahamas, the Cayman Islands, the Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, the Marshall Islands, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevis, and St. Vincent and the Grenadines. The jurisdictions that the FATF also reviewed were Antigua and Barbuda, Belize, Bermuda, the British Virgin Islands, Cyprus, Gibraltar, Guernsey, the Isle of Man, Jersey, Malta, Mauritius, Monaco, St. Lucia, and Samoa.

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Meanwhile, the OECD was responsible for investigating tax evasion and establishing a consensus—ultimately opposed by only Switzerland and Luxembourg—on how to tackle harmful tax practices. The organization then set out to identify the tax havens that undermine other nations' tax bases. These havens, according to the OECD, shared four key factors: lack of transparency, lack of effective exchange of information, "ring-fencing" regimes (whereby foreign customers are subject to rules different from those applied to citizens), and no or low effective tax rates. (On the last point, however, the OECD made clear that low taxes alone do not make a country a tax haven. Low taxes are problematic only when combined with harmful tax practices.) Like the FATF, the OECD permitted the countries being reviewed to have their say in the assessment process. In June 2000, the OECD announced that six jurisdictions under review—Bermuda, the Cayman Islands, Cyprus, Malta, Mauritius, and San Marino—had committed to eliminate harmful tax practices by the end of 2005 and to embrace international tax standards. Others did not, however, and by the end of the month the OECD released a list of these tax havens.[3]

In July 2000, the G-7 finance ministers met and endorsed the recommendations of all three initiatives. More pointedly, they also issued formal advisories to their domestic financial institutions, informing them of the FATF actions against money-laundering havens and calling on those institutions to scrutinize transactions involving the nations on the FATF list. This unprecedented step was, in essence, a warning light from the ministers. They also threatened that if listed countries did not take immediate steps to fight money laundering, the G-7 would consider additional measures, such as restricting financial transactions with those jurisdictions and conditioning support from international financial institutions.

3 The OECD found the following jurisdictions to be tax havens: Andorra, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Bahrain, Barbados, Belize, the British Virgin Islands, the Cook Islands, Dominica, Gibraltar, Grenada, Guernsey, the Isle of Man, Jersey, Liberia, Liechtenstein, the Maldives, the Marshall Islands, Monaco, Montserrat, Nauru, the Netherlands Antilles, Niue, Panama, Samoa, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, the Seychelles, Tonga, Turks and Caicos, the U.S. Virgin Islands, and Vanuatu.

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WINNING FRIENDS AND INFLUENCING PEOPLE

THE G-7'S THREAT was credible and the global reaction was immediate. Markets responded first: the day the FATF released its list, for instance, Standard & Poor's downgraded its rating for a top Liechtenstein bank. An industry reaction followed, as banks from G-7 nations began to review their relationships with banks from many of the listed countries. Numerous reports emerged of old ties being broken and new relationships being abandoned. Finally, there was a diplomatic reaction: some of the listed countries started complaining about new difficulties in processing international wire transfers and in balancing accounts by settling their daily dollar transactions. After the initial predictable denunciations of the "naming and shaming" initiatives, many of the targeted countries began to make politically difficult pledges to bring their regimes up to international standards. More countries began to cooperate with the OECD. By the beginning of 2001, 32 of the 35 listed tax havens had sought further dialogue with the OECD. The Isle of Man, the Netherlands Antilles, and the Seychelles took the next step and signed commitments to eliminate harmful tax practices; others were working with the OECD to follow suit. The IMF and other international institutions also incorporated anti–money laundering measures into some of their country reviews and assessments.

Steeled by this reaction, key nations began to apply additional pressures where they held special influence. The French came down particularly hard on Monaco, and the British stepped up pressure on their dependencies in the Caribbean and in the English Channel. The European Union began difficult discussions with Luxembourg and Switzerland about their refusal to cooperate on tax matters. The United States abstained from a vote on an IMF program for the Philippines, which Manila interpreted as a sign of increasing concerns about money laundering. Washington also got tough on Panama. After Peru's Montesinos fled there, Panama told the United States that it would give him asylum only if the United States would rescind its anti–money laundering advisory—a deal that the United States quickly rebuffed.

As a result of this pressure, the short period since the report's publication has seen substantial progress. By this February, 7 of the 15 targets of FATF action—the Bahamas, the Cayman Islands, the Cook

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Islands, Israel, Liechtenstein, the Marshall Islands, and Panama—had completely reinvented their approaches to combating money laundering. For the first time ever, money laundering is a crime in Israel and customer identification is mandatory in the Cayman Islands. Rogue banks have been closed and new law enforcement investigations have begun. Although full implementation of the new laws is yet to be confirmed in most cases, many listed nations have already cooperated more in assisting investigations.

This policy's success offers several important lessons. First, multilateral efforts can be productive globally without requiring global consensus. Coalitions of the willing can successfully influence and enforce international standards, especially if the coalition partners have a predominant interest in and influence over the subject at hand. In this case, the coalition that drove the FATF, FSF, and OECD process represented the dominant players in the global financial system, so it could effectively set the rules. Second, globalization and the integration of world financial markets give policymakers new abilities to influence events on a global scale. When governments are able to harness market forces, they can incite foreign private actors to lobby their own governments to take action. Third, such multilateral actions are most effective when no special favors are given. During this process, some of the targeted countries urged the United States to protect their interests; at times, divisions emerged within the U.S. government about how Washington should handle sensitive cases such as Israel, Panama, and Russia. In the end, thanks primarily to Deputy Treasury Secretary Stuart Eizenstat, the United States played no diplomatic favorites. This fairness made it much easier for France and the United Kingdom to be equally tough. And fourth, the initiative showed that U.S. leadership was essential even in a multilateral setting. With perhaps the sole exception of France, no other country could apply anywhere near the same degree of diplomatic efforts and legal and regulatory resources to this project.

A WAY FORWARD

THE WORK is far from over. The IMF and the World Bank still need to better incorporate measures to combat financial abuses into their regular programs. The OECD is working with its targeted countries to

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bring them closer into compliance with international standards—and it must decide what to do about countries that do not respond. The FATF is working to determine which countries have made enough progress toward full reform to be taken off the list; it is also reviewing additional countries to determine whether any should be added. Finally, both the FATF and the G-7 will have to confront the issue of countermeasures.

As successful as this process has been, not every targeted country has responded constructively. For instance, the United States received a letter from the president of Nauru soon after the FATF list's publication. He charged that, because Nauru was the "victim" of adverse publicity, business had taken a turn for the worse. Before Nauru could proceed with reforming its offshore financial regime, he concluded, it would need compensation for its losses—$10 million, to be exact.

Countries such as Nauru are primary targets for multilateral countermeasures. In February, the FATF identified three other states, along with Nauru, that had thus far done little or nothing of substance to improve their anti–money laundering regimes: Lebanon, the Philippines, and Russia. Lebanon has since rushed through new laws, and Russia has now introduced new legislation (after vetoes by former President Boris Yelstin and broken promises by President Vladimir Putin). But the Bush administration must determine before the next G-7 summit in July whether it wants to support multilateral penalties if that progress is not adequate. These penalties could range from strengthened advisories to bilateral actions such as denying visas or withholding loans. They could even involve outright economic sanctions such as the wholesale restriction of financial transactions.

A number of other initiatives remain necessary to build on the success so far. The United States should continue to improve its own anti–money laundering regime, balancing law enforcement and privacy interests, so that it can continue to lead the world's efforts. All U.S. financial institutions, not just banks, should be brought into the U.S. anti–money laundering regime. Pockets of domestic underregulation, such as Delaware's loose oversight of company incorporation, need additional scrutiny. Overly burdensome regulations, such as the blanket requirement to report cash transactions over $10,000 (a level that has not changed since the 1970s), should be relaxed to balance stronger requirements elsewhere. Most important, Washington

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should find a better way to share its information on criminal foreign banks with the domestic financial industry to help prevent U.S. banks from being abused.

The United States and its allies should also begin engaging strategically important developing countries such as China, India, and South Africa on this subject. The G-7 should do much more to coordinate action to track funds stolen by former kleptocrats such as Nigeria's Sani Abacha and Indonesia's Suharto. The FATF has already begun to review and improve international standards against money laundering. This review should address tough questions: Should tax fraud formally be an offense under the money-laundering statutes? How can anti–money laundering provisions be applied to the growing Islamic banking system and underground banking mechanisms such as the *hawala* system, which caters to Middle Eastern and South Asian populations around the world? Lastly, the United States and other interested nations should view the "naming and shaming" efforts of the FATF, the FSF, and the OECD as models for other policy areas.

A BUSH BACKTRACK?

IT IS PERHAPS too early to know how the Bush administration will confront abuses in the global financial system. But initial signs indicate that George W. Bush may be less interested in multilateral approaches and strong regulatory actions than his predecessors. Some law enforcement experts are already worried about the views of Bush's chief economic adviser, Lawrence Lindsey, who has long opposed the legislative foundations of the U.S. anti–money laundering regime. In a 1999 article in *The Financial Times,* for example, he challenged the regime's very constitutionality, arguing that the "current money-laundering enforcement practices are the kind of blanket search that the writers of the Constitution sought to prohibit."

Lindsey is correct on one point: the need to balance law enforcement interests against concerns over privacy. In recent years, several good proposals have emerged for modifying U.S. laws and regulations to better address legitimate privacy concerns—something moderates on both sides of this debate should embrace. Otherwise, Lindsey's positions are far from mainstream. He ignores the fact that efforts to balance

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enforcement and privacy interests have always been integral to U.S. banking laws and regulations. That understanding has resulted in a steady tradition of bipartisan support for efforts to prevent money laundering. Richard Nixon signed the Bank Secrecy Act in 1970 and established the modern regulatory framework. Ronald Reagan signed legislation in 1986 making money laundering a federal crime and expanding Nixon's framework. And George H.W. Bush led the G-7 initiative to create the FATF and established the Treasury Department's Financial Crimes Enforcement Network. Indeed, the same principles that concern Lindsey are central tenets of the international standards that the United States has been urging the rest of the world to adopt. If Washington backtracked from those tenets now—as Lindsey has advocated—it would seriously undermine a successful bipartisan effort.

Lindsey's views are not the only ones that cause concern, however. During his first two meetings with his G-7 counterparts in February and April, Treasury Secretary Paul O'Neill retreated from the previous U.S. position of strong support for the FATF and OECD initiatives, insisting they were now "under review." Then in May, he wrote in *The Washington Times* that he shares "many of the serious concerns that have been expressed recently about the direction of the OECD initiative" and that "the project is too broad and it is not in line with this administration's tax and economic priorities." He left the other finance ministers publicly questioning whether the United States would go along with the critical next step in these efforts: multilateral countermeasures against the most egregious havens for financial abuses.

In taking these positions, O'Neill was reflecting the views of a vocal, well-financed minority of Americans who oppose any multilateral discussions of tax issues for fear of an imaginary "global tax police"—the financial equivalent of U.N. black helicopters. These ideologues have targeted the OECD initiative to combat harmful tax practices, arguing that it would somehow prevent the United States from lowering taxes at home. But nothing could be further from the truth. The OECD initiative clearly allows countries to lower taxes—indeed, to zero if they desire. Otherwise, places such as the Cayman Islands would have been listed as tax havens.

Meanwhile, O'Neill's insistence on a lengthy "review" of the OECD initiative has already seen predictable diplomatic consequences.

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Many countries on the OECD list immediately adopted a new confrontational approach. Rather than working with OECD technical experts to address clear concerns about transparency and information sharing, they now, in the words of one Antiguan official, "seek a global tax forum to resolve these issues, rather than one dominated by the OECD." Of course, if a "global forum" such as the U.N. General Assembly became the venue for establishing international standards, the votes of underregulators would easily carry the day. Money launderers and tax evaders around the world would then breathe a deep sigh of relief.

This July, at the annual G-7 summit in Italy, the Bush administration's official approach will become clear. Notwithstanding Lindsey's previous positions or O'Neill's early statements, the Bush administration could still decide to continue the successful multilateral approach to combating money laundering, tax evasion, and rogue banking. Such a decision would be a victory of good policy over bad politics. But if the United States weakens or withdraws its support, the entire effort will be grievously—perhaps irreparably—harmed. If G-7 decisions about countermeasures are delayed in July, much of the diplomatic momentum will be lost. If no effective sanctions are imposed at all against the worst offenders, the credibility of the entire effort will be put in doubt. Those who would look to the Bush administration to take tough measures against international money laundering and tax evasion would then likely have to wait—at least until the next big money laundering scandal emerges.

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Iran in the Balance

Puneet Talwar

BACKLASH

Soon after reformists won a landslide victory in Iran's February 2000 parliamentary elections, the conservative offensive began in earnest. One of the first victims was Saeed Hajjarian, a top strategist in the reform movement and among President Mohammad Khatami's closest advisers, who was on his way to a meeting of Tehran's city council when a young man hopped off a motorcycle and approached him. The man pulled a gun, pointed it at Hajjarian's head, and fired. The reformist survived the attack, although he was critically wounded, and the gunman and several accomplices were eventually tried and imprisoned. Still, few Iranians believe the attackers acted on their own, and the incident drove home the extraordinary risks now facing Iran's reformers. The shooting also marked the beginning of a sustained assault on the reform movement that has continued ever since.

Anxious to turn back Khatami's democratic reforms, hard-line conservatives are now resorting to ever more aggressive tactics. On March 4 of this year, Mostafa Tajzadeh—Iran's deputy interior minister and another Khatami confidant—was sentenced to a year in prison by the conservative judiciary. The trumped-up conviction, ostensibly for rigging votes in last year's parliamentary victory by the reformists, was an attempt by hard-liners to prevent Tajzadeh from overseeing the June 8 presidential election.

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Tajzadeh was not the only recent victim. Reformist parliamentarians have been harassed and intimidated, and numerous media outlets have been shut down. The vehemence of the conservative backlash may stem from the hard-liners' fear that they are soon to be eclipsed. Despite all the attempts to stymie the reform movement, the Iranian public has endorsed further change at almost every opportunity—and, as of this writing, was expected to do so again by electing President Khatami to a second term with a wide margin on June 8. Still, the fate of Iran's democratic movement remains very much uncertain. Despite the popularity of the reformists, conservatives still dominate much of the government. The circumstances are so fragile that relatively minor changes could have dramatic repercussions inside Iran, eventually tilting the balance one way or another. American policy toward Iran should therefore proceed very carefully. Although it is clear what outcome Washington would prefer, the United States should avoid embracing any particular domestic faction as Iran's power struggle intensifies.

This does not mean, however, that Washington should do nothing at all. The right American policy—one characterized by subtle but significant shifts—could make an important contribution, encouraging Iran's evolution in a direction that would eventually benefit both countries. It is therefore time for the Bush administration to abandon the containment strategy it inherited and embark on a new policy of moderate engagement. By slowly helping Tehran reintegrate into the world community through various multilateral arrangements, Washington can encourage and strengthen positive forces within Iran. This tactic could eventually lead to a rapprochement between the two long-time enemies.

Given the legacy of mistrust between Tehran and Washington and the fluid nature of Iranian politics, rebuilding ties will take time. But Washington should start making the investment now, for Iran's strategic value is difficult to overlook. The country abuts the fragile states of the Caucasus and Central Asia, some of which are endowed with large untapped energy reserves. Iran's neighborhood also features oil-rich U.S. allies, a recalcitrant Iraq, a terrorist and narcotics haven known as Afghanistan, and a politically troubled, nuclear-armed Pakistan.

Most important, Iran's potential for democratic development far outstrips that of many of its troubled neighbors. If encouraged, the

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country could become a stabilizing force in a region vital to American interests. Improved U.S.-Iranian ties could lead to cooperation on a range of shared priorities. From the Iranian perspective, cooperation would lead to even greater prizes: the economic benefits that would accrue from normal commercial relations with the United States and the diplomatic gains that would accompany an end to Washington's containment policy.

That policy is already beginning to waver. In March 2000, the Clinton administration responded to reforms in Iran by making an explicit overture to the Iranian people and their government. But the olive branch was rebuffed, and Tehran has continued to engage in the sort of activity that makes rapprochement impossible. Its tradition of supporting terrorism has not diminished: when violence between Israelis and Palestinians escalated last year, Iran gave both moral and material support to terrorist groups such as Hezbollah and Hamas, encouraging them to join forces in the fight against Israel. Meanwhile, within Iran, the government has continued to commit human rights violations and to develop missiles and weapons of mass destruction (WMD) with the assistance of Russia and other states. These are not minor obstacles to better relations with the United States, and because of them, crafting the right strategy for the Bush administration will not be easy. But Iran is slowly changing, and although the advances remain uncertain, it is time that U.S. policy followed suit.

LIBERATION THEOLOGIST

THE CURRENT dramatic changes in Iran date back to 1997 and the surprise election of a dark horse presidential candidate, a mid-level cleric named Mohammed Khatami, who came to power promising to democratize the Islamic Republic. Initially, Khatami succeeded in advancing large portions of his reform program (dubbed the "Second of *Khordad* Movement," after the date of his election on the Iranian calendar). Khatami and his allies granted new freedoms to the press, eased some social restrictions, and brought a limited degree of accountability to government. Iranians allowed themselves to become optimistic about the future.

Changes soon began to appear on the international front as well. In a 1998 interview on CNN, Khatami told a surprised world audience

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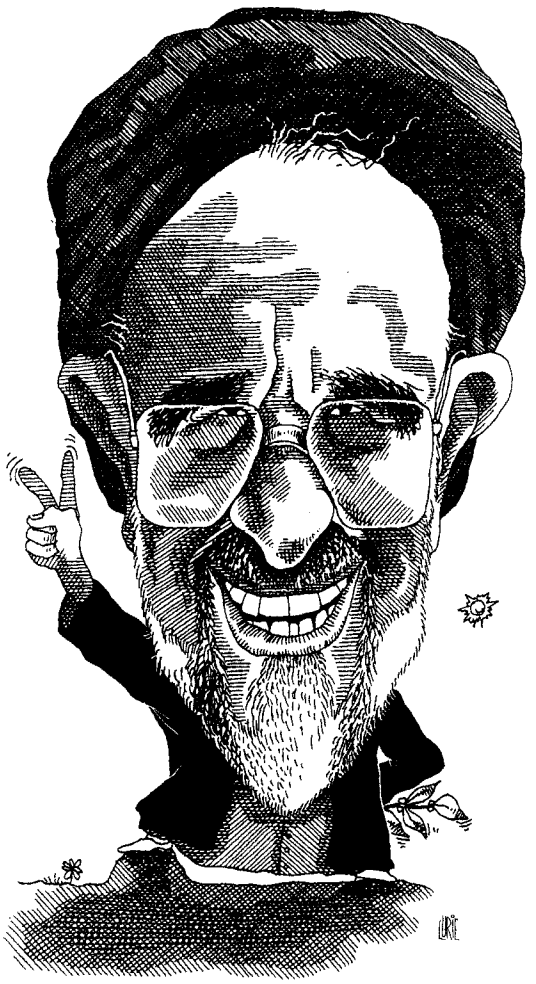

PRESIDENT MOHAMMAD KHATAMI

that he wanted to start breaking down "the wall of mistrust" that separated Iran from the United States. This statement was cautiously welcomed by much of the international community, which hoped that the positive changes being made inside Iran would eventually be reflected in the country's external policies. Meanwhile, the United States found that international support for the American containment policy was beginning to slip. As long as Iran had remained in the grip of revolutionary fervor, its extreme behavior helped justify U.S. policy. But once the new government reached out to the West, advocated détente with the United States, and called for democracy and the rule of law at home, international perceptions began to change. Key American allies in Europe had already embarked on a process of "critical dialogue" with Iran before Khatami's election, in the belief that engagement is a more effective way to reform a regime than is isolation. Once Khatami was inaugurated, Europe and Japan became even less willing to cooperate with the United States in applying pressure on Iran.

U.S. policymakers eventually began to moderate their views toward the Islamic Republic. In its final years, the Clinton administration started rethinking the aggressive containment policy that it had pursued since 1993—a policy that sought to isolate Iran, in part by attempting to limit all third-party assistance to the country. The restrictions had been tightened in 1995; in response to pressure from the Republican-dominated Congress, President Bill Clinton had issued an executive order imposing across-the-board, unilateral trade

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and investment sanctions on Iran. But in March 2000, Washington signaled its new approach toward Iran through a speech delivered by then Secretary of State Madeleine Albright. The speech touched on many painful historical episodes that still resonate strongly in both countries, such as American support for a 1953 coup and the 1979–81 hostage crisis. Albright then went on to outline a vision for a new, positive relationship between the United States and the Islamic Republic. She announced the easing of sanctions on Iranian exports of food and carpets and on people-to-people exchanges and offered to settle the significant legal claims that have remained unresolved for two decades since the revolution. And she reiterated the long-standing U.S. offer of open dialogue without any preconditions.

Albright's overture was received favorably by many in Iran who wanted improved ties with the United States. The speech even generated a brief, taboo-breaking debate on whether to restore relations with the United States—leading one Iranian newspaper to print an American flag, without any flames, on its front page. Unfortunately, the internal power struggle between reformists and conservatives soon intensified, leading most Iranians to turn their attention to matters closer to home. Tehran chose not to respond to the American offer.

THE HARD-LINERS STRIKE BACK

THE IMMEDIATE IMPETUS for Albright's speech had been the February 2000 election of a new parliament (or *Majlis*) dominated by the reformists. This victory marked the third time in three years in which Iranians had endorsed progressive change at the polls. After the election, many Iran-watchers believed that the reformists had finally gained the institutional clout they needed to begin implementing their program. But then the momentum changed rather abruptly.

In the last year, Khatami's moderates have been thrown on the defensive by a severe hard-line backlash, led by conservatives who still control Iran's courts, the Revolutionary Guards (an army-like institution that also plays an important role in internal security), the office of the Supreme Leader, and powerful bodies such as the Council of Guardians, which can veto legislation deemed to conflict with the Iranian constitution or Islamic principles. Under Iran's constitution,

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ultimate authority is vested in the Supreme Leader, who is appointed by a conservative-dominated council, establishes guidelines for Iran's domestic and foreign policies, and controls the state media, the judiciary, the Revolutionary Guards, the armed forces, and other key power centers. The president appoints a cabinet with the approval of parliament but occupies a secondary position, managing the day-to-day affairs of government within the parameters set by the Supreme Leader.

Using their institutional upper hand, hard-liners have arrested journalists and opposition political activists and sent them to prison. They have shut down reformist newspapers and magazines. Proposed laws debated by the *Majlis* to expand press freedom and promote social reforms have been blocked. The hard-liners have managed to harass and drive from office close associates of Khatami. The Second of *Khordad* Movement has stalled.

The battle lines, however, are not completely clear. Iran's political scene is vastly more complex than the simple division between "reformists" and "conservatives" suggests. In reality, each category encompasses a broad set of groups, each with its own ideology and world-view. The reformists include factions ranging from the religious left to pragmatic technocrats and restless students. The conservative label refers to diverse elements such as moderate *bazaaris* (merchants), much of the clerical establishment, and extreme hard-liners who advocate violence against their political opponents. To complicate matters even further, the two camps are not entirely consistent when it comes to Iran's foreign policy, including the question of relations with the United States. Elements in both camps take different positions on whether rapprochement is appropriate and on what conditions should be placed on a dialogue. Only one consistent factor distinguishes the two sides, in fact: the argument over the proper role and structure of government in Iran.

The two camps have also adopted different strategies. In recent months, the conservatives, especially the hard-line faction, have worked together effectively to weaken their opponents and slow or halt policies they view as threatening Iran's social harmony and the essence of the Islamic Republic. It remains unclear whether the conservatives have overreached and failed to recognize their own unpopularity with the public. For the time being, however, the reform

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movement has fallen into disarray—a reversal of roles from the first two and a half years of Khatami's tenure, when it was the conservatives who seemed on the defensive.

Many Iranians who had high hopes for the Second of *Khordad* Movement have been sorely disappointed, and some erstwhile supporters have directed their frustration at President Khatami for not assertively countering the challenges to his proposals. In recent months, Khatami has admitted candidly that he lacks the means to discharge his responsibilities. Despite his setbacks and the newly lowered expectations, however, Khatami was still (as of this writing) expected to win a second term easily. Though the scales may have fallen from the public's eyes, the president is still considered the best hope for peaceful reform.

A Khatami victory, however, will not by itself change the political dynamics in Iran. Despite a new popular mandate for the reformists, the conservatives—who have shown little interest in public sentiments thus far—will probably continue their assault on the president's reform agenda. But although the conservatives may succeed in slowing the pace of change, the underlying social and economic forces that led to Khatami's election in the first place will only continue to grow in strength. Iran today has a burgeoning youth culture: roughly half of the country's nearly 65 million people were born after the revolution. These young people crave social and political freedom and want their country to better integrate with the dynamic world beyond their borders. Along with a well-educated middle class, politically active women, and high unemployment, these forces form a potent combination that will ultimately make political change in Iran inevitable—whether the conservatives like it or not.

Khatami's program reflects these fundamental shifts in Iranian society. But the president, himself a cleric, has always taken extreme care to portray his reforms as consistent with the ideals of the revolution and Iran's constitutional order. Whether he will be able to carry it off and bridge the many competing forces within Iran while preserving his image as a champion of the Islamic Republic remains to be seen. Should Khatami fail, the broad coalition that carried him to power could split at the seams, with religious reformists, Western-oriented secularists, leftists, and students all going their separate ways.

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THE MIDDLE PATH

GIVEN THIS UNCERTAINTY, the United States must avoid appearing to take sides in the ongoing power struggle. But this does not mean that Washington has no range of movement. In fact, the Bush administration has a choice of three broad options to follow in its Iran policy. One path would be either to simply continue with the Clinton approach (that is, basic containment but with some limited exceptions) or to try to reinvigorate it. A second option could be called "moderate engagement" and would involve helping Iran form better international ties while leaving key portions of the U.S. sanctions regime intact. This track could eventually lead Iran to moderate its more objectionable behavior and thus clear the way for improved U.S.-Iranian relations and the elimination of sanctions. A third option would be for Washington to take significant steps toward dismantling the sanctions regime now, with the hope that this preemptive move would jump-start a rapid rapprochement.

Maintaining the status quo might seem appealing to Bush officials, given the unpredictable and politically risky situation. But more of the same is unlikely to yield any progress with Iran in the foreseeable future. After eight years, there is no evidence that the current approach will ever convince Iran to modify its behavior. In fact, by limiting the potentially positive impact of outside influences, containment is likely to do more harm than good. Persisting with this unpopular policy will generate significant friction with American allies in Japan and Europe. But without their support, the attempt to isolate Iran will never succeed.

If the administration chooses to move away from containment and pursue moderate engagement, it could do so in a number of ways. The United States could seek cooperation with Iran on one of several limited issues, such as the efffort to stop narcotics trafficking. In the last decade, Iran has taken several thousand casualties in battles with drug traffickers along its eastern frontier and has requested assistance from the international community. Even without creating formal diplomatic ties, the United States could help out indirectly through the United Nations Drug Control Program. In addition, Washington could support American nongovernmental organizations (NGOs) that

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could provide humanitarian assistance to the two million Afghan and Iraqi refugees now living in Iran. According to the U.N. High Commissioner for Refugees, Iran today hosts the largest refugee population in the world. This large influx has strained Iran's resources and created social tensions that U.S. aid could help alleviate.

In a similar vein, the Bush administration could also order the Treasury Department's Office of Foreign Assets Control to issue new regulations that would modify the sanctions, permitting limited support by American NGOs for academic, cultural, and civic activities in Iran. This step would remove much of the red tape that currently prevents one of the greatest assets of American democracy—a vibrant nonprofit, nongovernmental sector—from coming to the aid of Iran's emerging but still fragile civil society. In the absence of formal ties, unofficial contacts between NGOs can prove invaluable, laying the groundwork for future relations.

Even moderate engagement with Iran would have a high political price.

To help lower tensions, the administration could curtail or stop requiring the fingerprinting of the thousands of Iranians who visit the United States each year, and use alternate means to address its security concerns. The blanket regulation on fingerprinting has led to a number of embarrassing episodes that have impeded people-to-people contacts between the two countries and damaged the prospect of an overall improvement in relations.

Washington could also end its active opposition to World Bank lending to Tehran. As it is, the United States seems to be losing this battle: last year, it was rebuffed by other industrialized nations when the bank resumed lending to Iran for public health and sewer projects. The United States also could permit Iran to begin negotiations to join the World Trade Organization. WTO membership would force Iran to make fundamental changes to its economy, especially the vast government-controlled sector, which would improve transparency and bolster the reform movement.

As outlined above, moderate engagement would consist of apparently modest steps. But even these measures would have a high political price and would generate significant bureaucratic opposition within Washington. The State Department designates Iran as a state sponsor

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of terrorism, and this stigma would make any engagement difficult. To move forward, the Bush administration would have to overcome serious resistance not only within the executive branch but also on Capitol Hill—even though none of these steps would require new legislation. The political costs to the president would be manageable, but they would require careful handling nonetheless.

Of course, the Bush administration could decide that moderate engagement does not go far enough. In that case, Washington could take more dramatic steps toward dismantling U.S. sanctions. The administration could start by permitting U.S. businesses to enter into agreements with Iranian counterparts pending the lifting of sanctions, or it could permit U.S. oil companies to engage in swaps—a mechanism by which oil from the Caspian Basin would be delivered to Northern Iran while an equivalent amount of Iranian oil was shipped out of the south.

A more comprehensive approach would be to lift the ban on all non-military-related U.S. exports, Iranian exports, and U.S. investment in a single, dramatic gesture. Such a bold move could lead to a peculiar kind of relationship that reportedly has already been mooted by high-ranking Iranians: "relations without negotiations." Under this approach, Washington would defer discussions on its areas of concern until after formal diplomatic relations had been established. Some Iranians have interpreted a 1998 statement attributed to the Supreme Leader, Ayatollah Ali Khamenei, that "negotiations are worse than relations" as supportive of this kind of approach.

The administration could also try to prevent the renewal of the Iran-Libya Sanctions Act (ILSA) when it expires in August. ILSA mandates sanctions on foreign firms that invest more than $20 million in Iran's oil and gas sector. This law is symbolically important to Iran, but in practice it does more damage to U.S. relations with Europe, which objects strongly to Washington's attempt to control its allies' behavior. Nonetheless, given the strong support for ILSA in Congress, Bush should not waste political capital fighting its renewal. Instead, he should agree to ILSA's renewal in exchange for congressional support for other Iran-related measures.

In general, however, dropping sanctions on Iran would not be easy and the Bush administration would have a hard time finding support

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in Congress for such moves. To make matters worse, Iran would probably continue its objectionable policies despite the U.S. overtures. There is a real danger that Iran would refuse to respond in any way, leaving the Bush administration looking naive. For the time being, therefore, moderate engagement is a far safer approach to take.

DETAILS, DETAILS

OVERCOMING so many years of enmity will be extremely difficult. Powerful emotional, structural, and political barriers stand in the way of improved U.S.-Iranian ties—the cumulative result of reported CIA involvement in Prime Minister Mohammad Mossadeq's removal in the 1953 coup, of Washington's support for the repressive and unpopular shah, of the Iranian seizure of American diplomats in 1979, of the U.S. tilt toward Iraq during the Iran-Iraq War of the 1980s, and of the casualties inflicted by Iranian-supported terrorism.

Although many in both governments recognize the need for a better relationship, therefore, widespread hostility in each country remains a serious obstacle. Two examples illustrate this point and highlight the difficulty in moving forward. In September 1999, Iranian Foreign Minister Kamal Kharrazi addressed a gathering on the sidelines of the U.N. General Assembly, where he was asked how Iran would respond if the United States dropped its sanctions on the import of Iranian food and carpets. Kharrazi's prepared answer, carefully noted by U.S. policymakers, declared that Iran would "respond positively" to such a move. In due course, Albright announced six months later the removal of such restrictions. But the positive response promised by Kharrazi never materialized, apparently due to the opposition of Ayatollah Khamenei.

A second example also involves the Albright speech. In her statement, the secretary of state pledged to "explore ways to remove unnecessary impediments to increased contact between Iranian and American scholars, professionals, artists, athletes, and nongovernmental organizations." But the Treasury Department's Office of Foreign Assets Control, which is charged with sanctions implementation, dragged its feet and delayed granting a general license to permit American NGOs to start supporting their counterparts in Iran until President

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Clinton left office. As this suggests, governments in both countries may sometimes find it difficult to overcome opposition to improved ties from within their own bureaucracies.

Achieving better relations between the United States and Iran will require building a domestic consensus and overcoming a severe lack of trust. Decision-makers currently fear bold gestures because they worry that their risky steps will not be reciprocated. This problem appears to be even more acute in Iran than in the United States, where many have accepted the arguments for improving ties. Even as Congress remains deeply concerned about Iran's WMD and missile activities, staunch anti-Israel posture, human rights abuses, and support for terrorism, a growing number of legislators have expressed interest in improving relations and in visiting Iran (but have been unable to obtain visas). U.S. businesses, especially oil companies, are nervously watching foreign competitors acquire a foothold in the Iranian market and are loudly advocating a thaw in relations.

Although a strong majority of Iranians also favors improved ties, Ayatollah Khamenei, who under the constitution has the final word on all matters, remains opposed to the idea. Khamenei is sensitive to the opinions of the conservative clergy and the security services, which are his primary sources of support. Thus he has consistently rejected any dialogue with the United States. Khamenei has permitted limited indirect contacts and left the door open to the resumption of commercial ties that would benefit Iran. But he has no interest in working out reciprocal steps that both sides could take to restore confidence and eventually normalize relations.

As Khamenei and his conservative supporters see it, the United States is arrogantly trying to dictate terms to Iran. Given the strong nationalist current in the Iranian psyche and the centrality of "independence" as a core principle of the Islamic Revolution, Iran is particularly sensitive to the notion that sanctions are being used as leverage to effect changes in its behavior. As long as the hated sanctions remain in place, many in Iran will view any dialogue as tantamount to a capitulation to U.S. dictates.

As a result, Iranian diplomats have insisted that in order for relations to improve, the United States must show its respect for Iran's "dignity and honor" by first lifting all sanctions, settling billions of dollars in outstanding legal claims, and dropping its opposition to Iran's serving

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as a transit route for oil from the Caspian basin. These three conditions seem to reflect a consensus position among Iran's political factions. Even those within Iran who would like to go beyond a commercial relationship and establish political ties have lined up behind this policy in the hope that bringing an end to U.S. sanctions will strengthen their bargaining position on the question of formal relations. And the recent election is unlikely to change any of this.

The positions of the two governments, then, can be summed up as follows. Washington tells Tehran, "let's talk, and when we talk we can discuss sanctions." Tehran replies, "you lift sanctions, and we'll think about talking." Meanwhile, neither side believes that its moves will be reciprocated by the other.

In addition, both sides tend to downplay the importance of developing a new relationship. Iranians feel that U.S. ties have grown less important because of their improving relations with Europe, Japan, Russia, China, and regional players such as Saudi Arabia. Tehran is also convinced that Washington's thirst for oil will eventually bring it around. The United States, on the other hand, seems to feel it has little reason to engage an intermittently hostile, medium-sized country.

Although both countries could survive without improving their relations—indeed, they have managed to do so for more than two decades—neither should miss the opportunity to bolster regional and global security. Negotiations between the two sides might be difficult, but the absence of direct dialogue is worse, since it leads each side to badly misjudge the other's intentions and to misread the other's signals.

UNLIKELY ALLIES

IN LIGHT OF these many factors—U.S. domestic political constraints, the uncertainties surrounding the pace of political evolution in Iran, and the international unpopularity of containment—moderate engagement emerges as the most sensible policy. Washington should make important but limited gestures toward Iran while offering to go much further if Iran reciprocates. Even if the Bush administration does decide to pursue this policy, however, it should have realistic expectations about the troubles ahead. Both sides have already suffered too much from frustrated expectations of the other.

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Washington should not expect Tehran to end its more objectionable policies anytime soon—certainly not as a direct response to U.S. overtures. Even with the international community pressuring Iran, it is unlikely to moderate its stance unless its national interests compel it to. Thus Iran is unlikely to withdraw its support for terrorist groups such as Hezbollah or Hamas, which oppose peace in the Middle East, until a comprehensive settlement is struck that sidelines Palestinian radicals and causes Syria to ask Iran to withdraw from the scene. Likewise, Tehran is unlikely to rein in its WMD programs without broad regional talks on the subject and the promise of a safer neighborhood. After all, Iran has had good reason to fear one of its neighbors in particular: Iraq, which has used chemical weapons against Iran in the past.

Given these realities, the Bush administration must separate the question of restoring political ties from the objective of encouraging Iran's moderation and integration as a responsible member of the international community. The latter can be achieved without the former and is so important to U.S. interests that it is worth pursuing on its own.

Moderate engagement would encourage Iran's collaboration with multilateral institutions, help its integration with the global trading system, and give it far stronger incentives to improve its behavior than has the containment policy. Moderate engagement would also bring the United States into closer alignment with its allies, decreasing friction and improving the chances for a more effective common approach.

Meanwhile, moderate engagement would begin a gradual process of laying the groundwork for an eventual rapprochement once Iran's domestic political situation permits it to move forward. Many Iranians now recognize that the best way to secure their country's future is by making a positive contribution to international peace and security. A new U.S. policy would strengthen their hand, helping them do just that.

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Fool's Gold in Alaska

Amory B. Lovins and L. Hunter Lovins

THE BOTTOM OF THE BARREL?

OIL PRICES have fluctuated randomly for well over a century. Heedless of this fact, oil's promoters are always offering opportunities that could make money—but on the flawed assumption that high prices will prevail. Leading the field of these optimists are Alaskan politicians. Eager to keep funding their state's de facto negative income tax—oil provides 80 percent of the state's unrestricted general revenue—they have used every major rise in oil prices since 1973 to advocate drilling beneath federal lands on the coastal plain of the Arctic National Wildlife Refuge. Just as predictably, environmentalists counter that the refuge is the crown jewel of the American wilderness and home to the threatened indigenous Gwich'in people. As some see it, drilling could raise human rights issues under international law. Canada, which shares threatened wildlife, also opposes drilling.

Both sides of this debate have largely overlooked the central question: Does drilling for oil in the refuge's coastal plain make sense for economic and security reasons? After all, three imperatives should shape a national energy policy: economic vitality, secure supplies, and environmental quality. To merit serious consideration, a proposal must meet at least one of these goals.

Drilling proponents claim that prospecting for refuge oil will enhance the first two while not unduly harming the third. In fact, not

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only does refuge oil fail to meet any of the three goals, it could even compromise the first two. First, the refuge is unlikely to hold economically recoverable oil. And even if it did, exploitation would only briefly reduce U.S. dependence on imported oil by just a few percentage points, starting in about a decade. Nor would the refuge yield significant natural gas. Despite some recent statements by the Bush administration, the North Slope's important natural-gas deposits are almost entirely outside the refuge. The gas-rich areas are already open to industry, and environmentalists would likely support a gas pipeline there, but its high cost—an estimated $10 billion—would make it seem uneconomical.

Furthermore, those who suppose that any domestic oil is more secure than imported oil should remember that oil reserves almost anywhere else on earth are more accessible and more reliably deliverable than those above the Arctic Circle. Importing oil in tankers from the highly diversified world market is arguably better for energy security than delivering refuge oil to other U.S. states through one vulnerable conduit, the Trans-Alaska Pipeline System. Although proponents argue that exploiting refuge oil would make better use of TAPS (which is all paid for but only half-full), that pipeline is easy to disrupt and difficult to repair. More than half of it is elevated and indefensible; in fact, it has already been bombed twice. If one of its vital pumping stations were attacked in the winter, its nine million barrels of hot oil could congeal into the world's largest Chapstick. Nor has the 24-year-old TAPS aged gracefully: premature and accelerated corrosion, erosion, and stress are raising maintenance costs. Last year, the pipeline suffered two troubling accidents plus another that almost blew up the Valdez oil terminal. If TAPS were to start transporting refuge oil, it would start only around the end of its originally expected lifetime. That one fragile link, soon to be geriatric, would then bring as much oil to U.S. refineries as now flows through the Strait of Hormuz—a chokepoint that is harder to disrupt, is easier to fix, and has alternative routes.

Available and proven technological alternatives that use energy more productively can meet all three goals of energy policy with far greater effectiveness, speed, profit, and security than can drilling in the refuge. The untapped, inexpensive "reserves" of oil-efficiency

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technology exceed by more than 50 times the average projection of what refuge drilling might yield. The existence of such alternatives makes drilling even more economically risky.

In sum, even if drilling in the Arctic Wildlife Refuge posed no environmental or human rights concerns, it still could not be justified on economic or security grounds. These reasons remain as compelling as they were 14 years ago, when drilling there was last rejected, and they are likely to strengthen further with technological advances. Comparing all realistic ways to meet the goals of national energy policy suggests a simple conclusion: refuge oil is unnecessary, insecure, a poor business risk, and a distraction from a sound national debate over realistic energy priorities. If that debate is informed by the past quarter-century's experience of what works, a strong energy policy will seek the lowest-cost mix of demand- and supply-side investments that compete fairly at honest prices. It will not pick winners, bail out losers, substitute central planning for market forces, or forecast demand and then plan capacity to meet it. Instead, it will treat demand as a choice, not fate. If consumers can choose optimal levels of efficiency, demand can remain stable (as oil demand did during 1975–91) or even decline—and it will be possible to provide secure, safe, and clean energy services at the lowest cost. In this market-driven world, the time for costly refuge oil has passed.

DOING MORE WITH LESS

UNSTABLE OIL PRICES have historically triggered new energy strategies. In the years following the oil-price jump in 1973, Presidents Richard Nixon and Gerald Ford sought to reduce U.S. dependence on oil imports by stimulating domestic energy supplies. With the country beset by inflation, however, they also controlled oil and gas prices, so the new supplies often appeared cheaper than they really were. President Jimmy Carter repeated this supply mistake by promoting a costly flop in synthetic fuels, but he also trusted the market enough to deregulate oil and gas prices. (Paradoxically, he discouraged exploration for natural gas by prohibiting its use in most new power plants.) The fall of the shah of Iran again hiked oil prices in 1979 and contributed to Carter's political demise. Yet that second shock also stimulated a nationwide, seven-year drive for greater energy efficiency. Cheaper ways

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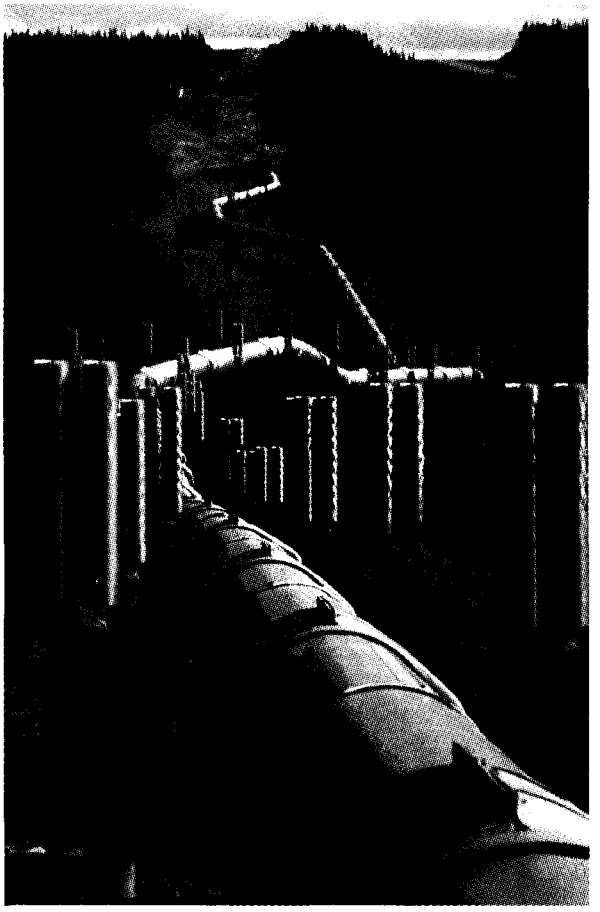
of delivering "energy services" (e.g., hot showers and cold beer) by using energy more productively left the energy-supply industries with costly surpluses as their prices collapsed in 1985–86. This crash benefited consumers but punished the same energy producers that the Reagan administration had sought to help. Underlying this energy glut was not just a response to higher prices but a basic policy shift: Carter had emphasized the efficient use of energy, especially in cars, and Americans then discovered how quickly demand-side policies can swing the global oil market.



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Don't be fuelish: the Trans-Alaska Pipeline

Greater efficiency bore dramatic results. Carter's policies made new American-built cars more efficient by seven miles per gallon (mpg) over six years. During Carter's term and the five years following it, oil imports from the unstable Persian Gulf region fell by 87 percent. From 1977 to 1985, U.S. GDP rose 27 percent while total U.S. oil imports fell by 42 percent, or 3.74 million barrels a day. That savings took away from the Organization of Petroleum Exporting Countries an eighth of its market. The entire world oil market shrank by a tenth; OPEC's share of it was slashed from 52 percent to 30 percent, while OPEC's output fell by 48 percent. The United States accounted for one-fourth of that reduction. More-efficient cars—each driving one percent fewer miles on 20 percent fewer gallons—were the most important cause; 96 percent of those savings came from smarter design, whereas 4 percent came from smaller size. Other countries also improved car efficiency, but they used higher fuel taxes instead of higher efficiency standards to do so.

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In those eight years, U.S. oil productivity soared by 52 percent, demonstrating an effective new source of energy security and a potent weapon against high oil prices and supply manipulations. The United States showed that a major nation could respond to supply disruptions by focusing on the demand side and boosting its energy productivity at will. It could thereby exercise more market power than suppliers, beat down prices, and enhance the relative importance of less vulnerable, more diversified sources of energy.

If the United States had conserved oil at the same rate that it did in 1976–85, it would have needed no Persian Gulf oil after 1985.

Drilling proponents today ignore this lesson. Instead, they cite the imperative of displacing Middle East oil to justify drilling in every U.S. site where oil might occur. But even if this imperative existed, refuge oil would be a poor solution. After a decade of drilling and preparation, it could provide only modest, brief relief—totaling less than one percent of projected U.S. oil needs—and would cost much more than the efficiency-boosting alternatives. Repaying refuge-oil investments would require oil prices so high that, in the ensuing decade, they would elicit far greater efficiency. Those efficiency gains, in turn, would depress oil prices, displace the targeted imports, and make refuge oil unnecessary. That was what happened in the mid-1980s; repeating the same experiment will yield the same result.

The United States has exploited its reserves longer and more fully than has any other nation, so the essence of its oil problem is that finding and lifting the next barrel typically costs more at home than abroad. A market economy offers three possible solutions to this puzzle: protectionism, trade, and substitution. Protectionism means subsidizing domestic output, which deters efficient use, or taxing imports, which violates free-trade rules. Either way, market principles are scorned, competitiveness wanes, and domestic oil depletion is illogically countered by faster depletion. Most countries opt for the trade solution. Germany and Japan, for example, import all their oil and are adept at earning foreign exchange to pay for it. They rely on a global oil-trading and transport system so flexible that even the Persian Gulf War did not create lines at gas stations. Trade is hardly

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novel to the United States, which imports many vital commodities, including 52 percent of its oil last year at a cost of $109 billion. But if concerned Americans fear that higher costs or thorny questions of political instability make importing unattractive, a third option exists: substitution.

Substitution means displacing oil with more efficient use of oil or alternative energy sources. This strategy reduces dependence in the quickest and cheapest way and maximizes competition and innovation. Indeed, the United States has already partly followed this course; its oil productivity has already doubled since 1975. But the efficiency-promotion strategy could have gone much further if U.S. policymakers had not quickly combated and suppressed it after the 1986 oil-price collapse. (In that year, for example, a rollback of car and light-truck efficiency standards doubled U.S. oil imports from the Persian Gulf and wasted one "refuge" of oil.) If the United States had continued to conserve oil at the same rate that it did in 1976–85 or had simply bought new cars that got 5 mpg more than they did, it would no longer have needed Persian Gulf oil after 1985. Instead, policy in the 1980s discouraged energy efficiency, which was officially characterized as an intrusive, interventionist burden of curtailment and sacrifice. Efficiency also appeared needless when the 1986 price crash ushered in a decade of cheap oil, while deep budget cuts crippled technological innovation in energy productivity. Today, the dramatic gains in energy efficiency that the United States launched during the Carter years have been forgotten. Many journalists and political leaders no longer remember that efficiency gains are not only possible but profitable. Yet despite the neglect of efficiency from 1986 to 1996 (when efficiency began a sudden resurgence), the nation has still cut $200 billion off its annual energy bill.

U.S. oil imports crept back up in the late 1980s, spurred by low prices, abundant supplies, corporate inattention, and policy neglect. If the first Bush administration had required in 1991 that the average car get 32 mpg, that measure alone would have displaced all Persian Gulf oil imports to the United States. Instead, the United States fought a war that deployed tanks moving at 0.56 mpg and aircraft carriers moving at 17 feet per gallon. That effort cost the United States more than it would have cost to save (through investing in

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efficiency technology) all the oil imported from the Gulf. That lesson was ignored as Congress stalled most efficiency initiatives in the 1990s. By 2000, oil imports had rebounded to their record 1977 level, and oil prices spiked once more. The three-member Alaskan congressional delegation, chairing three of the four chief congressional committees controlling public lands, again pressed for drilling in the refuge. On January 22, 2001, aides to President George W. Bush claimed that California's electricity crisis showed that the nation desperately needs more fuel. In fact, California has no shortage of oil, and only one percent of its electricity comes from oil; nationwide, only two percent of oil is consumed to generate electricity. Curiously, the administration's response to the nation's supposed "energy crisis" has been to reject the notion of "doing more with less," the very definition of energy efficiency. It has halved key budgets for efficiency research, increased future power needs by 13 billion watts by weakening cost-effective air-conditioner standards, and centered its supply-side strategy on seeking—against all odds—congressional approval to exploit refuge oil.

OIL ROULETTE

THE REFUGE is one of the planet's most inhospitable and remote locations. For oil companies to invest profitably there, it must hold a lot of oil. Furthermore, world oil prices must stay high enough for a long enough time to recover costs and earn profits. But even official proponents of drilling have found its economics dubious.

In 1998, the U.S. Geological Survey (USGS) found that better (and fourfold cheaper) production technologies could probably draw 3.2 billion barrels from the refuge.[1] This oil would be worth recovering only if its long-term price were at least $22 per barrel in West Coast ports (the destinations that the USGS picked for its price calculations). But until it spiked up from $13 per barrel in 1998 to $30 per barrel in

[1] This is the mean of a range of projections, from 0.5 billion to 6.5 billion, from the USGS's 1998 study. The higher estimates that some drilling proponents cite, such as the 13.7 billion barrels mentioned by *The Wall Street Journal*'s editorial page, exceed the USGS's highest projection at any price, because they typically ignore recoverability, economics, and geographic location. All prices in this article are in 2000 dollars (fourth quarter).

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late 2000, Alaskan oil did not exceed that level for 8 years. That spike was a blip, not a trend. In April 2001, Alaska's Department of Revenue forecast a steady price drop from $22 per barrel in 2001–2 to less than $13 per barrel in 2009–10—the earliest that any refuge oil might flow. Alaska's latest price forecast for 2020 is $18 per barrel. The U.S. Department of Energy predicts that world oil prices will not reach $23 per barrel until 2020; nearly all industry forecasts are lower.

But it is no longer necessary to speculate which forecast is correct; they all tend to converge on the prices discovered in the futures market. Alaska's forecasters agree that this convergence is unaffected by price spikes such as the one in 2000. Their projection for 2004–10 accordingly stays under $16 per barrel. (One of the world's largest oil companies does not even consider any prospect requiring a delivered price of more than $14 per barrel.) According to the USGS, that price is also the threshold below which there is probably no economically recoverable oil beneath the refuge. Even that threshold may be too high; volatile oil prices make drilling especially risky, requiring higher returns and prices in any high-cost area where exploration and development will be slow and difficult. And if the federal government were to demand lease fees, such as the multi-billion-dollar revenues that the Alaskan delegation inserts into budget bills, or if TAPS needed more maintenance, the price threshold would rise.

Some drilling advocates argue that technological advances in finding and extracting oil can still make refuge oil profitable. Those advances are indeed real and astoundingly rapid. From 1987 to 1999, they increased the discovery of new U.S. oil resources by an estimated three-fifths. One-ninth of all U.S. oil reserves discovered since 1859 were found just in the past decade, even as oil prices fell. Better technologies could make extracting refuge oil cheaper—but those same advances would also cut costs everywhere else, and just about anywhere else is easier and more attractive. Better technology makes global oil more plentiful and therefore cheaper, so it renders high-cost areas less competitive. During the 1990s, this process combined with increasing competition from energy alternatives to halve long-term forecasts of oil prices, which are still falling. The Department of Energy now forecasts that imported oil will cost three-fifths less by 2020 than what the Department of the Interior

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had forecast in 1987, when it predicted prices hitting $61 per barrel. If oil companies really believed in sustained high prices, they would be drilling everywhere—and they are not. On the contrary, when oil prices rose from $10 per barrel to $25 per barrel in 1998–99 and lifted the oil and gas revenues of major U.S. energy companies by more than 50 percent, those firms cut exploration and development outlays by 66 percent in the United States (onshore) and 38 percent worldwide. These companies believe that advancing technology will keep the world long awash in oil that is too cheap for refuge drilling to beat.

Who, then, is pushing for drilling—aside from the powerful Alaskan congressional delegation? Oil-service companies and Alaskan operations offices of major oil companies naturally want to extend and expand their activities and apply their special skills, but they would be risking others' money, not their own. Likewise, the TAPS consortium wants more revenue and a political commitment that might justify a later government bailout if the pipeline turned out to need costly repairs, but it too would not be the one making the huge investment. Conspicuously absent is a ringing endorsement from leaders of major oil firms. They understand the high risk and the prospect of poor rewards, and those that are more astute also fear global consumer boycotts. To the extent that any are interested, it is to seek a bargaining chip for other areas now off-limits or to avoid the social embarrassment of being left off the dance card if the government throws an oil party—not because there is a sound business case.

Finally, the rationale that refuge drilling is urgently needed to relieve U.S. dependence on OPEC oil is full of holes. Net U.S. oil imports have indeed risen past their 1977 peak, but OPEC's share of those imports has fallen by one-third. Only a quarter of the oil consumed in the United States now comes from OPEC members. Imports are diversified and come mainly from western hemisphere countries that offer major opportunities for expanding both oil and gas supplies. The more that imports are a concern, however, the stronger the case for substituting not just any option but the cheapest one—slashing America's energy bills by a further $300 billion a year by raising energy productivity.

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IT'S EASY (AND LUCRATIVE) BEING GREEN

OIL IS becoming more abundant but relatively less important. For each dollar of GDP, the United States used 49 percent less oil in 2000 than it did in 1975. Compared with 1975, the amount that energy efficiency now saves each year is more than five times the country's annual domestic oil production, twelve times its imports from the Persian Gulf, and twice its total oil imports. And the efficiency resource is far from tapped out; instead, it is constantly expanding. It is already far larger and cheaper than anyone had dared imagine.

Increased energy productivity now delivers two-fifths of all U.S. energy services and is also the fastest growing "source." (Abroad, renewable energy supply is growing even faster; it is expected to generate 22 percent of the European Union's electricity by 2010.) Efficient energy use often yields annual after-tax returns of 100 to 200 percent on investment. Its frequent fringe benefits are even more valuable: 6 to 16 percent higher labor productivity in energy-efficient buildings, 40 percent higher retail sales in stores with good natural lighting, and improved output and quality in efficient factories. Efficiency also has major policy advantages. It is here and now, not a decade away. It improves the environment and protects the earth's climate. It is fully secure, already delivered to customers, and immune to foreign potentates and volatile markets. It is rapidly and equitably deployable in the market. It supports jobs all across the United States rather than in a few firms in one state. Yet the energy options now winning in the marketplace seem oddly invisible, unimportant, and disfavored in current national strategy.

Those who have forgotten the power of energy efficiency should remember the painful business lessons learned from the energy policies of the early 1970s and the 1980s. Energy gluts rapidly recur whenever customers pay attention to efficiency—because the nationwide reserve of cheap, qualitatively superior savings from efficient energy use is enormous and largely accessible. That overhang of untapped and unpredictably accessed efficiency presents an opportunity for entrepreneurs and policymakers, but it also poses a risk to costly supply investments. That risk is now swelling ominously.

In the early 1980s, vigorous efforts to boost both supply and efficiency succeeded. Supply rose modestly while efficiency soared.

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From 1979 to 1986, GDP grew 20 percent while total energy use fell by 5 percent. Improved efficiency provided more than five times as much new energy service as the vaunted expansion of the coal and nuclear industries; domestic oil output rose only 1.5 percent while domestic natural gas output fell 18 percent. When the resulting glut slashed energy prices in 1985–86, attention strayed and efficiency slowed. But just in the past five years, the United States has quietly entered a second golden age of rapidly improving energy efficiency. Now, with another efficiency boom underway, the whole cycle is poised to repeat itself—threatening another energy-policy train wreck with serious economic consequences.

From 1996 to 2000, a complex mix of factors—such as competitive pressures, valuable side benefits, climate concerns, and e-commerce's structural shifts—unexpectedly pushed the pace of U.S. energy savings to nearly an all-time high, averaging 3.1 percent per year despite the record-low and falling energy prices of 1996–99. Meanwhile, investment in energy supply, which is slower to mature, lagged behind demand growth in some regions as the economy boomed. Then in 2000, Middle East political jitters, OPEC machinations, and other factors made world oil prices spike just as cold weather and turbulence in the utility industry coincidentally boosted natural gas prices. Gasoline prices are rising this year—even though crude-oil prices are softening—due to shortages not of crude oil but of refineries and additives. California's botched utility restructuring, meanwhile, sent West Coast electricity prices sky-high, although not for the oft-cited reasons. (Demand did not soar, and California did not stop building power plants in the 1990s, contrary to many observers' claims.)

The higher fuel and electricity prices and occasional local shortages that have vexed many Americans this past year have rekindled a broader national interest in efficient use. The current economic slowdown will further dampen demand but should also heighten business interest in cutting costs. Efficiency also lets numerous actors harness the energy market's dynamism and speed—and it tends to bear results quickly. All these factors could set the stage for another price crash as burgeoning energy savings coincide, then collide, with the new administration's push to stimulate energy supplies. Producers who answer that call will risk shouldering the cost of added supply without

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the revenue to pay for it, for oil prices high enough to make refuge oil profitable would collapse before or as supply boomed.

Policymakers can avoid such overreaction and instability if they understand the full range of competing options, especially the ability of demand to react faster than supply and the need for balancing investment between them. As outlined above, in the first half of the 1980s, the U.S. economy grew while total energy use fell and oil imports from the Persian Gulf were nearly eliminated. This achievement showed the power of a demand-side national energy policy. Today, new factors—even more powerful technologies and better designs, streamlined delivery methods, and better understanding of how public policy can correct dozens of market failures in buying efficiency—can make the demand-side response even more effective. This can give the United States a more affordable and secure portfolio of diverse energy sources, not just a few centralized ones.

A BARREL SAVED, A BARREL EARNED

IF OIL WERE FOUND and profitably extracted from the refuge, its expected peak output would equal for a few years about one percent of the world oil market. Senator Frank Murkowski (R-Alaska) has claimed that merely announcing refuge leasing would bring down world oil prices. Yet even a giant Alaskan discovery several times larger than the refuge would not stabilize world oil markets. Oil prices reached their all-time high, for example, just as such a huge field, in Alaska's Prudhoe Bay, neared its maximum output. Only energy efficiency can stabilize oil prices—as well as sink them. And only a tiny fraction of the vast untapped efficiency gains is needed to do so.

What could the refuge actually produce under optimal conditions? Starting about ten years from now, if oil prices did stay around $22 per barrel, if Congress approved the project, and if the refuge yielded the USGS's mean estimate of about 3.2 billion barrels of profitable oil, the 30-year output would average a modest 292,000 barrels of crude oil a day. (This estimate also assumes that such oil would feed U.S. refineries rather than go to Asian markets, as some Alaskan oil did in 1996–2000.) Once refined, that amount would yield 156,000 barrels of gasoline per day—enough to run 2 percent of American cars and

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light trucks. That much gasoline could be saved if light vehicles became 0.4 mpg more efficient. Compare that feat to the one achieved in 1979–85, when new light vehicles on average gained 0.4 mpg every 5 months.

Equipping cars with replacement tires as efficient as the original ones would save consumers several "refuges" full of crude oil. Installing superinsulating windows could save even more oil and natural gas while making buildings more comfortable and cheaper to construct. A combination of all the main efficiency options available in 1989 could save today the equivalent of 54 "refuges"—but at a sixth of the cost. New technologies for saving energy are being found faster than the old ones are being used up—just like new technologies for finding and extracting oil, only faster. As gains in energy efficiency continue to outpace oil depletion, oil will probably become uncompetitive even at low prices before it becomes unavailable even at high prices. This is especially likely because the latest efficiency revolution squarely targets oil's main users and its dominant growth market—cars and light trucks—where gasoline savings magnify crude-oil savings by 85 percent.

New American cars are hardly models of fuel efficiency. Their average rating of 24 mpg ties for a 20-year low. The auto industry can do much better—and is now making an effort. Briskly selling hybrid-electric cars such as the Toyota Prius (a Corolla-class 5-seater) offer 49 mpg, and the Honda Insight (a CRX-class 2-seater) gets 67 mpg. A fleet that efficient, compared to the 24 mpg average, would save 26 or 33 refuges, respectively. General Motors, DaimlerChrysler, and Ford are now testing family sedans that offer 72–80 mpg. For Europeans who prefer subcompact city cars, Volkswagen is selling a 4-seater at 78 mpg and has announced a smaller 2003 model at 235 mpg. Still more efficient cars powered by clean and silent fuel cells are slated for production by at least eight major automakers starting in 2003–5. An uncompromised fuel-cell vehicle—the Hypercar℠—has been designed and costed for production and would achieve 99 mpg; it is as roomy and safe as a midsized sport-utility vehicle but uses 82 percent less fuel and no oil.[2] Such high-efficiency vehicles, which probably can

[2] Amory B. Lovins was the originator of this project. A private firm, in which he holds a minor financial interest, is preparing such vehicles for commercial production.

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be manufactured at competitive cost, could save globally as much oil as OPEC now sells; when parked, the cars' dual function as plug-in power stations could displace the world's coal and nuclear plants many times over.

As long as the world runs largely on oil, economics dictates a logical priority for displacing it. Efficient use of oil wins hands down on cost, risk, and speed. Costlier options thus incur an opportunity cost. Buying costly refuge oil instead of cheap oil productivity is not simply a bad business decision; it worsens the oil-import problem. Each dollar spent on the costly option of refuge oil could have bought more of the cheap option of efficient use instead. Choosing the expensive option causes more oil to be used and imported than if consumers had bought the efficiency option first. The United States made exactly this mistake when it spent $200 billion on unneeded (but officially encouraged) nuclear and coal plants in the 1970s and 1980s. The United States now imports oil, produces nuclear waste, and risks global climate instability partly because it bought those assets instead of buying far cheaper energy efficiency.

Drilling for refuge oil is a risk the nation should consider taking only if no other choice is possible. But other choices abound. If three or four percent of all U.S. cars were as efficient as today's popular hybrid models, they would save the equivalent of all the refuge's oil. In all, many tens of times more oil is available—sooner, more surely, and more cheaply—from proven energy efficiency. The cheaper, faster energy alternatives now succeeding in the marketplace are safe, clean, climate-friendly, and overwhelmingly supported by the public. Equally important, they remain profitable at any oil price. They offer economic, security, and environmental benefits rather than costs. If any oil is beneath the refuge, its greatest value just might be in holding up the ground beneath the people and animals that live there.

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The Pitfalls of Universal Jurisdiction

Henry A. Kissinger

RISKING JUDICIAL TYRANNY

IN LESS THAN a decade, an unprecedented movement has emerged to submit international politics to judicial procedures. It has spread with extraordinary speed and has not been subjected to systematic debate, partly because of the intimidating passion of its advocates. To be sure, human rights violations, war crimes, genocide, and torture have so disgraced the modern age and in such a variety of places that the effort to interpose legal norms to prevent or punish such outrages does credit to its advocates. The danger lies in pushing the effort to extremes that risk substituting the tyranny of judges for that of governments; historically, the dictatorship of the virtuous has often led to inquisitions and even witch-hunts.

The doctrine of universal jurisdiction asserts that some crimes are so heinous that their perpetrators should not escape justice by invoking doctrines of sovereign immunity or the sacrosanct nature of national frontiers. Two specific approaches to achieve this goal have emerged recently. The first seeks to apply the procedures of domestic criminal justice to violations of universal standards, some of which are embodied in United Nations conventions, by authorizing national prosecutors to bring offenders into their jurisdictions through extradition from third countries. The second approach is the International Criminal

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Court (ICC), the founding treaty for which was created by a conference in Rome in July 1998 and signed by 95 states, including most European countries. It has already been ratified by 30 nations and will go into effect when the total reaches 60. On December 31, 2000, President Bill Clinton signed the ICC treaty with only hours to spare before the cutoff date. But he indicated that he would neither submit it for Senate approval nor recommend that his successor do so while the treaty remains in its present form.

The very concept of universal jurisdiction is of recent vintage. The sixth edition of *Black's Law Dictionary,* published in 1990, does not contain even an entry for the term. The closest analogous concept listed is *hostes humani generis* ("enemies of the human race"). Until recently, the latter term has been applied to pirates, hijackers, and similar outlaws whose crimes were typically committed outside the territory of any state. The notion that heads of state and senior public officials should have the same standing as outlaws before the bar of justice is quite new.

In the aftermath of the Holocaust and the many atrocities committed since, major efforts have been made to find a judicial standard to deal with such catastrophes: the Nuremberg trials of 1945–46, the Universal Declaration of Human Rights of 1948, the genocide convention of 1948, and the antitorture convention of 1988. The Final Act of the Conference on Security and Cooperation in Europe, signed in Helsinki in 1975 by President Gerald Ford on behalf of the United States, obligated the 35 signatory nations to observe certain stated human rights, subjecting violators to the pressures by which foreign policy commitments are generally sustained. In the hands of courageous groups in Eastern Europe, the Final Act became one of several weapons by which communist rule was delegitimized and eventually undermined. In the 1990s, international tribunals to punish crimes committed in the former Yugoslavia and Rwanda, established ad hoc by the U.N. Security Council, have sought to provide a system of accountability for specific regions ravaged by arbitrary violence.

But none of these steps was conceived at the time as instituting a "universal jurisdiction." It is unlikely that any of the signatories of either the U.N. conventions or the Helsinki Final Act thought it

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possible that national judges would use them as a basis for extradition requests regarding alleged crimes committed outside their jurisdictions. The drafters almost certainly believed that they were stating general principles, not laws that would be enforced by national courts. For example, Eleanor Roosevelt, one of the drafters of the Universal Declaration of Human Rights, referred to it as a "common standard." As one of the negotiators of the Final Act of the Helsinki conference, I can affirm that the administration I represented considered it primarily a diplomatic weapon to use to thwart the communists' attempts to pressure the Soviet and captive peoples. Even with respect to binding undertakings such as the genocide convention, it was never thought that they would subject past and future leaders of one nation to prosecution by the national magistrates of another state where the violations had not occurred. Nor, until recently, was it argued that the various U.N. declarations subjected past and future leaders to the possibility of prosecution by national magistrates of third countries without either due process safeguards or institutional restraints.

Yet this is in essence the precedent that was set by the 1998 British detention of former Chilean President Augusto Pinochet as the result of an extradition request by a Spanish judge seeking to try Pinochet for crimes committed against Spaniards on Chilean soil. For advocates of universal jurisdiction, that detention—lasting more than 16 months—was a landmark establishing a just principle. But any universal system should contain procedures not only to punish the wicked but also to constrain the righteous. It must not allow legal principles to be used as weapons to settle political scores. Questions such as these must therefore be answered: What legal norms are being applied? What are the rules of evidence? What safeguards exist for the defendant? And how will prosecutions affect other fundamental foreign policy objectives and interests?

A DANGEROUS PRECEDENT

It is decidedly unfashionable to express any degree of skepticism about the way the Pinochet case was handled. For almost all the parties of the European left, Augusto Pinochet is the incarnation of a right-wing assault on democracy because he led a coup d'état against an elected leader. At the time, others, including the leaders

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Trial or error?
General Augusto Pinochet, Santiago, Chile, May 24, 2000

CORBIS - BETTMANN

of Chile's democratic parties, viewed Salvador Allende as a radical Marxist ideologue bent on imposing a Castro-style dictatorship with the aid of Cuban-trained militias and Cuban weapons. This was why the leaders of Chile's democratic parties publicly welcomed—yes, welcomed—Allende's overthrow. (They changed their attitude only after the junta brutally maintained its autocratic rule far longer than was warranted by the invocation of an emergency.)

Disapproval of the Allende regime does not exonerate those who perpetrated systematic human rights abuses after it was overthrown. But neither should the applicability of universal jurisdiction as a policy be determined by one's view of the political history of Chile.

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The appropriate solution was arrived at in August 2000 when the Chilean Supreme Court withdrew Pinochet's senatorial immunity, making it possible to deal with the charges against him in the courts of the country most competent to judge this history and to relate its decisions to the stability and vitality of its democratic institutions.

On November 25, 1998, the judiciary committee of the British House of Lords (the United Kingdom's supreme court) concluded that "international law has made it plain that certain types of conduct ... are not acceptable conduct on the part of anyone." But that principle did not oblige the lords to endow a Spanish magistrate—and presumably other magistrates elsewhere in the world—with the authority to enforce it in a country where the accused had committed no crime, and then to cause the restraint of the accused for 16 months in yet another country in which he was equally a stranger. It could have held that Chile, or an international tribunal specifically established for crimes committed in Chile on the model of the courts set up for heinous crimes in the former Yugoslavia and Rwanda, was the appropriate forum.

The world must respect Chile's own attempt to come to terms with its brutal past.

The unprecedented and sweeping interpretation of international law in *Ex parte Pinochet* would arm any magistrate anywhere in the world with the power to demand extradition, substituting the magistrate's own judgment for the reconciliation procedures of even incontestably democratic societies where alleged violations of human rights may have occurred. It would also subject the accused to the criminal procedures of the magistrate's country, with a legal system that may be unfamiliar to the defendant and that would force the defendant to bring evidence and witnesses from long distances. Such a system goes far beyond the explicit and limited mandates established by the U.N. Security Council for the tribunals covering war crimes in the former Yugoslavia and Rwanda as well as the one being negotiated for Cambodia.

Perhaps the most important issue is the relationship of universal jurisdiction to national reconciliation procedures set up by new democratic governments to deal with their countries' questionable pasts. One would have thought that a Spanish magistrate would have

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been sensitive to the incongruity of a request by Spain, itself haunted by transgressions committed during the Spanish Civil War and the regime of General Francisco Franco, to try in Spanish courts alleged crimes against humanity committed elsewhere.

The decision of post-Franco Spain to avoid wholesale criminal trials for the human rights violations of the recent past was designed explicitly to foster a process of national reconciliation that undoubtedly contributed much to the present vigor of Spanish democracy. Why should Chile's attempt at national reconciliation not have been given the same opportunity? Should any outside group dissatisfied with the reconciliation procedures of, say, South Africa be free to challenge them in their own national courts or those of third countries?

It is an important principle that those who commit war crimes or systematically violate human rights should be held accountable. But the consolidation of law, domestic peace, and representative government in a nation struggling to come to terms with a brutal past has a claim as well. The instinct to punish must be related, as in every constitutional democratic political structure, to a system of checks and balances that includes other elements critical to the survival and expansion of democracy.

Another grave issue is the use in such cases of extradition procedures designed for ordinary criminals. If the Pinochet case becomes a precedent, magistrates anywhere will be in a position to put forward an extradition request without warning to the accused and regardless of the policies the accused's country might already have in place for dealing with the charges. The country from which extradition is requested then faces a seemingly technical legal decision that, in fact, amounts to the exercise of political discretion—whether to entertain the claim or not.

Once extradition procedures are in train, they develop a momentum of their own. The accused is not allowed to challenge the substantive merit of the case and instead is confined to procedural issues: that there was, say, some technical flaw in the extradition request, that the judicial system of the requesting country is incapable of providing a fair hearing, or that the crime for which the extradition is sought is not treated as a crime in the country from which extradition has been requested—thereby conceding much of the merit of the charge. Meanwhile, while these claims are being considered by the judicial

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system of the country from which extradition is sought, the accused remains in some form of detention, possibly for years. Such procedures provide an opportunity for political harassment long before the accused is in a position to present any defense. It would be ironic if a doctrine designed to transcend the political process turns into a means to pursue political enemies rather than universal justice.

The Pinochet precedent, if literally applied, would permit the two sides in the Arab-Israeli conflict, or those in any other passionate international controversy, to project their battles into the various national courts by pursuing adversaries with extradition requests. When discretion on what crimes are subject to universal jurisdiction and whom to prosecute is left to national prosecutors, the scope for arbitrariness is wide indeed. So far, universal jurisdiction has involved the prosecution of one fashionably reviled man of the right while scores of East European communist leaders—not to speak of Caribbean, Middle Eastern, or African leaders who inflicted their own full measures of torture and suffering—have not had to face similar prosecutions.

Some will argue that a double standard does not excuse violations of international law and that it is better to bring one malefactor to justice than to grant immunity to all. This is not an argument permitted in the domestic jurisdictions of many democracies—in Canada, for example, a charge can be thrown out of court merely by showing that a prosecution has been selective enough to amount to an abuse of process. In any case, a universal standard of justice should not be based on the proposition that a just end warrants unjust means, or that political fashion trumps fair judicial procedures.

AN INDISCRIMINATE COURT

THE IDEOLOGICAL supporters of universal jurisdiction also provide much of the intellectual compass for the emerging International Criminal Court. Their goal is to criminalize certain types of military and political actions and thereby bring about a more humane conduct of international relations. To the extent that the ICC replaces the claim of national judges to universal jurisdiction, it greatly improves the state of international law. And, in time, it may be possible to negotiate

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modifications of the present statute to make the ICC more compatible with U.S. constitutional practice. But in its present form of assigning the ultimate dilemmas of international politics to unelected jurists—and to an international judiciary at that—it represents such a fundamental change in U.S. constitutional practice that a full national debate and the full participation of Congress are imperative. Such a momentous revolution should not come about by tacit acquiescence in the decision of the House of Lords or by dealing with the ICC issue through a strategy of improving specific clauses rather than as a fundamental issue of principle.

At any future time, U.S. officials involved in the NATO air campaign in Kosovo could face international prosecution.

The doctrine of universal jurisdiction is based on the proposition that the individuals or cases subject to it have been clearly identified. In some instances, especially those based on Nuremberg precedents, the definition of who can be prosecuted in an international court and in what circumstances is self-evident. But many issues are much more vague and depend on an understanding of the historical and political context. It is this fuzziness that risks arbitrariness on the part of prosecutors and judges years after the event and that became apparent with respect to existing tribunals.

For example, can any leader of the United States or of another country be hauled before international tribunals established for other purposes? This is precisely what Amnesty International implied when, in the summer of 1999, it supported a "complaint" by a group of European and Canadian law professors to Louise Arbour, then the prosecutor of the International Criminal Tribunal for the Former Yugoslavia (ICTY). The complaint alleged that crimes against humanity had been committed during the NATO air campaign in Kosovo. Arbour ordered an internal staff review, thereby implying that she did have jurisdiction if such violations could, in fact, be demonstrated. Her successor, Carla Del Ponte, in the end declined to indict any NATO official because of a general inability "to pinpoint individual responsibilities," thereby implying anew that the court had jurisdiction over NATO and American leaders in the Balkans and would have issued an indictment had it been able to identify the particular leaders allegedly involved.

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Most Americans would be amazed to learn that the ICTY, created at U.S. behest in 1993 to deal with Balkan war criminals, had asserted a right to investigate U.S. political and military leaders for allegedly criminal conduct—and for the indefinite future, since no statute of limitations applies. Though the ICTY prosecutor chose not to pursue the charge—on the ambiguous ground of an inability to collect evidence—some national prosecutor may wish later to take up the matter as a valid subject for universal jurisdiction.

The pressures to achieve the widest scope for the doctrine of universal jurisdiction were demonstrated as well by a suit before the European Court of Human Rights in June 2000 by families of Argentine sailors who died in the sinking of the Argentine cruiser *General Belgano* during the Falklands War. The concept of universal jurisdiction has moved from judging alleged political crimes against humanity to second-guessing, 18 years after the event, military operations in which neither civilians nor civilian targets were involved.

Distrusting national governments, many of the advocates of universal jurisdiction seek to place politicians under the supervision of magistrates and the judicial system. But prosecutorial discretion without accountability is precisely one of the flaws of the International Criminal Court. Definitions of the relevant crimes are vague and highly susceptible to politicized application. Defendants will not enjoy due process as understood in the United States. Any signatory state has the right to trigger an investigation. As the U.S. experience with the special prosecutors investigating the executive branch shows, such a procedure is likely to develop its own momentum without time limits and can turn into an instrument of political warfare. And the extraordinary attempt of the ICC to assert jurisdiction over Americans even in the absence of U.S. accession to the treaty has already triggered legislation in Congress to resist it.

The independent prosecutor of the ICC has the power to issue indictments, subject to review only by a panel of three judges. According to the Rome statute, the Security Council has the right to quash any indictment. But since revoking an indictment is subject to the veto of any permanent Security Council member, and since the

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prosecutor is unlikely to issue an indictment without the backing of at least one permanent member of the Security Council, he or she has virtually unlimited discretion in practice. Another provision permits the country whose citizen is accused to take over the investigation and trial. But the ICC retains the ultimate authority on whether that function has been adequately exercised and, if it finds it has not, the ICC can reassert jurisdiction. While these procedures are taking place, which may take years, the accused will be under some restraint and certainly under grave public shadow.

The advocates of universal jurisdiction argue that the state is the basic cause of war and cannot be trusted to deliver justice. If law replaced politics, peace and justice would prevail. But even a cursory examination of history shows that there is no evidence to support such a theory. The role of the statesman is to choose the best option when seeking to advance peace and justice, realizing that there is frequently a tension between the two and that any reconciliation is likely to be partial. The choice, however, is not simply between universal and national jurisdictions.

MODEST PROPOSALS

THE PRECEDENTS SET by international tribunals established to deal with situations where the enormity of the crime is evident and the local judicial system is clearly incapable of administering justice, as in the former Yugoslavia and Rwanda, have shown that it is possible to punish without removing from the process all political judgment and experience. In time, it may be possible to renegotiate the ICC statute to avoid its shortcomings and dangers. Until then, the United States should go no further toward a more formal system than one containing the following three provisions. First, the U.N. Security Council would create a Human Rights Commission or a special subcommittee to report whenever systematic human rights violations seem to warrant judicial action. Second, when the government under which the alleged crime occurred is not authentically representative, or where the domestic judicial system is incapable of sitting in judgment on the crime, the Security Council would set up an ad hoc international tribunal on the model of those

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of the former Yugoslavia or Rwanda. And third, the procedures for these international tribunals as well as the scope of the prosecution should be precisely defined by the Security Council, and the accused should be entitled to the due process safeguards accorded in common jurisdictions.

In this manner, internationally agreed procedures to deal with war crimes, genocide, or other crimes against humanity could become institutionalized. Furthermore, the one-sidedness of the current pursuit of universal jurisdiction would be avoided. This pursuit could threaten the very purpose for which the concept has been developed. In the end, an excessive reliance on universal jurisdiction may undermine the political will to sustain the humane norms of international behavior so necessary to temper the violent times in which we live.

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The Missile Defense Debate

John Newhouse

TO DEPLOY OR NOT TO DEPLOY

WELL BEFORE the 2000 election, George W. Bush and his inner circle were clear on a few things, one of which was missile defense. If they won, it would become the centerpiece of national security policy, even if all or most of the world's other major capitals see national missile defense (NMD), especially the U.S. approach to it, as irrelevant or unresponsive to plausible threats and a potential danger to global security.

There are various ways of looking at missile defense. Dispassionate advocates argue that it might actually have some deterrent value at some future moment against some violence-prone regime or possibly offer some protection against an accidental launch. And in any case, just deploying a missile defense could raise society's comfort level—its confidence that the government was doing all that it could to prevent the irrational actors of the world from doing what has been called "the unthinkable."

Less candid proponents favor a system with the declared purpose of managing a threat from the rogues of the world but envisage it as the first step toward a system really designed to neutralize China's modest strategic arsenal or the expanded Chinese arsenal they expect to see. Other, even more strenuous advocates favor a "thick" multi-layered system—combining land-, sea-, and space-based components—that would neutralize Russia's forces, along with China's.

Many, probably most, opponents regard missile defense as capable of contributing nothing but trouble. They see it as threatening deterrence and the arms control structure, starting with the Anti-Ballistic Missile (ABM) Treaty; as inevitably creating major difficulties with America's

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allies and greatly agitating its former adversaries, Russia and China. Also, they say, the assumption that it might even work and actually serve as a shield is badly flawed—how flawed would be discovered only after an attack. Hitting ten or so bullets with ten other bullets under controlled testing conditions can prove nothing, they argue. And anyway, the argument runs, the offense can always outnumber and outperform any defense.

Less committed opponents would say the United States should not rule out all forms of missile defense. Indeed, building on smaller, theater missile defense systems (TMD) that are now under development would not agitate other governments or upend the arms control structure. However, the most effective way of coping with a supposed threat of missile attack is and will remain deterring it with awesome strategic power. The next most effective way is, or would be, prior restraint, meaning a blend of political measures aimed at infusing the global environment with greater stability. The various steps would include arms control agreements, preventive diplomacy, some provisions of international law (including constraints on using space for military purposes), lengthening the reaction time of missile systems, exchange of surveillance data, and more transparency.

Emphasizing missile defense would undermine prior restraint. Still, a system could be deployed not as the primary, let alone exclusive, response to a putative threat but as another string to the bow. And if deployment dictated an appropriate amendment of the ABM Treaty, so be it. However, the Bush administration has probably foreclosed any such moderate approach.

The deployment decision should not be driven by doctrine, the promise of a given technology, or the claim of affordability. The core question is whether Americans would be more secure and the world more stable if the United States deployed a national missile defense. The president's speech on May 1 purported to be about providing greater security for a greater number, but he was really proposing a radical change in U.S. strategic doctrine.

To defend the living by deploying a missile defense system is for most advocates an article of faith. They always opposed the ABM Treaty, signed in 1972, under which the United States and the Soviet Union each surrendered any meaningful right to defend itself against

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the other's nuclear weapons. Indeed, various members of the Bush administration judge relying on deterrence immoral: far better to defend society than to have to avenge it after a destructive attack. And they lost no time in telling the Russians that the ABM Treaty was "a relic of the Cold War"; they might, it appeared, work with Russia to change the treaty, but they would walk away from it if they had to.

The Cold War may be over, but the world is far from having settled into a new era or a less threatening environment. The danger of a nuclear weapon going off somewhere is actually greater now than it was then. And the threat to the United States in particular—also greater than before—is less from the rogues of the world than from the disrepair of Russian strategic forces.

> The greatest nuclear threat today comes not from rogue states but from accidental launches.

In the Cold War era, serious people with some responsibility for nuclear weapons knew that neither superpower was going to make a calculated strike against the other and invite national suicide. The danger lay in the less remote threat of a nuclear weapon, or weapons, being used by accident or inadvertence. The command-and-control structures on either side were under stress, mainly because thousands of nuclear weapons deployed on silo-based missile launchers and on submarine-launched systems were kept on hair-trigger alert; the time available to decision-makers for reacting to an ambiguous event was—is—correspondingly short.

Remarkably, very little has changed except that the Russian structure is much weaker than it used to be. The early warning network is deteriorating and, like the rest of Russia's military infrastructure, is falling on increasingly hard times. But Russia still maintains a quick-launch posture for its intercontinental ballistic missiles (ICBMs) and keeps missile submarines on so-called dockside alert. Its missile systems, like those of the United States, could be launched within a few minutes of receiving the launch command.

The sensible and direct way of reducing the immediate danger would be, in the jargon, "de-alerting" the weapons. De-alerting would amount to de-mating, meaning the physical separation of missile warheads from launchers.

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Quite clearly, Russia is not going to de-alert unilaterally, or even start the process. Obsolescence and shoddy maintenance are steadily diminishing Russian strategic forces, thereby strengthening the case for keeping a portion of what remains of them on alert status.

Russia would see an extensive NMD system, together with the decision to scrub the ABM Treaty, as signaling an emergent U.S. bias toward reliance on defense and away from deterrence. Russia would be most unlikely then to agree to an American proposal to de-alert.

Moscow, Beijing, and worried European capitals see in Bush's design a quest for unilateral advantage by a power already in full possession of the relevant strategic advantages. And they deplore the administration's apparent unconcern with the arms control process.

The Bush team, in most cases, dislikes the nuclear arms control process because it sets limits in an area where they think the United States can best protect itself from the world's dangerous uncertainties. But cutting weapons unilaterally, as they prefer, could mean losing the on-site verification process. In that case, any reciprocal reductions by Russia could not be monitored, at which point confidence would decline and worst-case analysis would flourish, especially in an unstable environment. Arms control is a political process. Controlling nuclear weapons is less about cutting numbers of them than about building each side's confidence in the other. The mantra should be restraint, predictability, and transparency.

Washington's internal argument about what exactly to do, if anything, is an inward-looking exercise until allies and other big powers begin thinking and talking about what the U.S. decision may mean for them. The private reaction of major allies to Ronald Reagan's Strategic Defense Initiative (SDI) ranged from abusively critical to angry. By planning to send skyward high-power lasers and other futuristic directed-energy weapons to destroy offensive missiles, Washington seemed to be imposing a whole new strategy on European governments and Russia without warning, let alone consultation. The guarantor of Europe's security, it seemed, had opted for shielded insularity.

Then, as now, most Europeans hoped fervently that the ABM Treaty would be kept intact. They, like most orthodox American thinkers on the subject, were sure that any sizable defensive system

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would create an enormous spiral in offensive nuclear arms—a situation in which there would be far less stability, and so less security for all.

Then, as now, Moscow more than shared that concern. The ABM Treaty, which forbade testing and deployment of the systems on which SDI was based, had become a Russian icon.

AMERICAN APPROACHES

LEFT TO HIMSELF, President Bill Clinton would have preferred to negotiate major cuts in offensive nuclear weapons rather than revive the hoary argument about whether a bullet can be made to hit another bullet or whether it is a good idea even to try. Instead, he approved the National Missile Defense Act of 1999, yielding to pressure from the missile defense lobby and denying Republicans a potentially powerful political issue. At the time, he laid down four sensible criteria on which to base a deployment decision: affordability, technological readiness, responsiveness to an actual threat, and consistency with foreign policy and arms control requirements.

Otherwise, there was a lot wrong with the Clinton approach, starting with the analysis of the threat but also with the Pentagon's so-called architecture. Clinton did not like it much himself. The system, most of which his successor may revive as part of something bigger, would use ground-based interceptors deployed eventually at two sites and supported by an extensive network of ground-based radars and space-based infrared sensors. It did not test well, partly because the program was hurried to meet an unrealistic and arbitrary deadline. (Only three tests were conducted; two of them failed to hit the target.)

The alleged threat lay in the prospect that North Korea or Iran would be able, possibly within a few years, to threaten the United States with strategic missile systems. But within and beyond the administration, as well as within the intelligence bureaucracy itself, the threat was widely seen as greatly inflated. And much of what occurred was reminiscent of the latter 1970s, a time when Cold Warriors in and out of government exaggerated the strength of Soviet strategic forces, in part by intimidating the intelligence community and skewing the intelligence product. A major player in that era, perhaps the key

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player, was current Secretary of Defense Donald Rumsfeld, who in the summer of 1998 chaired a bipartisan commission mandated by Congress to examine the threat from ballistic missiles. Rumsfeld has had more to do with establishing the putative threat from North Korea and Iran than anyone else. His agenda is modest. He concentrates on just a few subjects, but these he routinely bulldozes into submission.

Both the Clinton and Bush inner circles read more into the Rumsfeld Commission report of August 1999 than was there, and Clinton, of course, used it to justify moving ahead as rapidly as possible. North Korea strengthened the case by launching the Taepodong I three-stage missile over Japan six weeks after the release of the Rumsfeld report.

A whiff of irony clings to this dawning of the national missile defense era. North Korea's test was a failure. The missile's third stage malfunctioned, and it failed to put the satellite payload in orbit. Also, in conducting the test, North Korea had neither telemetry nor down-range ships. So there was no way of knowing whether the re-entry vehicle survived the experience. Predictions by the U.S. intelligence community that North Korea would test the system again have not yet been borne out. Still, the Rumsfeld Commission report would have had far less impact if North Korea had not tested.

The State Department's intelligence people dissented from the assessment of the threat from North Korea as constituting a danger to the United States. They felt similarly about Iran, which would have little, if any, reason to develop an outright strategic threat to the United States. The obvious targets for Iran's missile systems are Iraq, Israel, and U.S. forces in the region. Its missile systems are being designed and tested accordingly.

Most of Clinton's national security apparatus feared a more imminent danger: that posed by nuclear weapons carried by terrorists or fired from ships. Once committed, Clinton should have adopted a different and broader approach to missile defense. Both the Rumsfeld Commission report and the unclassified version of a National Intelligence Estimate (NIE) that followed it were very similar. (Members of the commission served as outside reviewers of the NIE.) Both documents showed a range of threat, of which the most imminent, credible, and dangerous involved not unfriendly ICBMs, but short- or

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medium-range missiles launched from sea-based platforms deployed not far from the U.S. coastline. These systems were reported to be less expensive to develop, easier to produce covertly, and probably more accurate, at least for 15 or so years, than longer-range ones. The NIE went on to identify a gamut of nonmissile threats, which, taken together, were described as more immediate and less expensive than developing and producing ICBMs, more easily disguised, and probably more reliable than first-generation ICBMs.

Overcoming decoys is an intractable, perhaps insuperable problem for missile defense.

Language in the documents about an ICBM threat from so-called rogue states was considered by some of those involved in preparing the NIE as "red meat thrown to right wingers on the Hill." But the Clinton team could have seized the high ground politically by using language from the two documents to argue for matching each rung on the ladder of threat with an appropriate defensive measure. Specifically, they could have declared that missile defense merits an approach that is both broad and precise, since the threat is broader and more imminent than the prospect of North Korea's or Iran's developing ICBMs in the near term, if ever. They could also have noted that all advances in technologies designed to counter threats from lesser-range missiles would benefit the development of weapons to neutralize any potential ICBM threat from rogue states; the technologies are complementary, not disparate.

But the tail has been wagging the dog. The emphasis in spending for research and development has been on NMD instead of systems designed to defend against short- and medium-range missiles that threaten U.S. coastlines and American forces stationed abroad. Ten years after Iraq attacked U.S. forces with Scud missiles, America still lacks a so-called theater missile defense.

Predictably, Bush's key advisers have taken a much darker view of the threat to the United States from long-range missile systems than did the Clinton people, who, like the president, were being shoved along by domestic politics. The dominant figures around Bush are Vice President Dick Cheney, Rumsfeld, and Deputy Secretary of Defense Paul Wolfowitz. These three are much alike—capable, knowledgeable, resourceful, experienced, well to the right of center,

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and hard-line on Russia, China, and arms control—strong but wrong, as some have put it. Whether Secretary of State Colin Powell can or will try to influence the direction of policy on missile defense and related issues is somewhere between uncertain and doubtful.

Like Clinton, Bush will have to wrestle with cost—determining whether an expansive missile defense system can be reconciled with the administration's other programs, notably its defense budget and tax cut. Whatever approach he takes will also bump up against the tougher issue of technology. Any system would have to work the first time it was used. Overcoming countermeasures designed to defeat it is the intractable, perhaps insuperable problem. Opponents, quoting the NIE and other authorities, cite a number of uncomplicated decoys that would be effective against an NMD system such as the one put forward by Clinton.

Clinton chose not to deploy an NMD system, in part because the testing program created major doubts and the two independent reviews were sobering. "This is the most difficult thing the Department of Defense has ever tried to do," according to Philip E. Coyle, who directed the Pentagon's weapons testing from 1994 until January of this year.

However, the battle seems to have been joined on arms control issues and relations with other major powers. The chief concern was and should remain the sentiments of Russia, China, and U.S. allies in Europe and northeastern Asia.

RUSSIAN AND CHINESE OBJECTIONS

RUSSIAN OPPOSITION has multiple sources. There is the fear that missile defense will create pressure to expand Russian strategic forces. The last thing Russians want is a competition in strategic arms. They see their increasingly worn-down offensive forces shrinking to very low levels and have little appetite or resources for a new arms race. They want to see a focus on arms-race stability, not crisis stability. They do not want to have to deploy a lot of countermeasures. They are, as noted, more reliant on nuclear weapons and launch-on-warning than either Washington or they would like. And their control of weapons through the nuclear chain of command is believed by some specialists to be deteriorating in physical, organizational, and human terms.

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President Vladimir Putin is seen as a work in progress, his direction unclear. His high-energy diplomacy in Europe is bearing fruit. And he has proposed that Russia and the NATO membership jointly examine prospects for missile defense, a step that some in Washington see as an effort to divide America from Europe. But that will not happen unless the Bush administration causes it to happen.

A major and related Russian concern, one that China shares, is what both see as the militarization of space by the United States—of missile defense turning space into an arena of competition. They have read the Air Force Space Command's Web site, which talks about American domination of space and about space as the fourth frontier of warfare. And they have read "Joint Vision 2020," a document produced by the Joint Chiefs of Staff that advocates "full spectrum dominance—a capacity of U.S. forces ... to conduct prompt, sustained, and synchronized operations ... with access and freedom to operate in all domains—space, sea, land, air, and information."

Probably more disturbing was another Rumsfeld Commission report, also congressionally mandated and dealing with threats to U.S. satellites. The report does not call for but implies a U.S. need to accelerate development of antisatellite weapons, some of them space-based. But deploying such weapons will press other countries to develop and deploy countermeasures. And in any such tit for tat, the United States has the most to lose, since it is far more dependent on satellites for commercial communications and data-gathering operations than any other country. Among the effects could be a sharp rise in the cost of insuring commercial satellites and an outcry from industry.

Russian anxiety over what may transpire in space just might cause Putin to oppose any form of strategic missile defense, including the least threatening: a boost-phase system. A defense of this kind would target ICBMs in their first few minutes of flight, when they are easier to track because of the rocket plumes behind them and easier to destroy because they have not yet had a chance to launch decoys. A boost-phase defense system, moreover, could be designed to operate over an area small enough to be effective against emerging threats such as North Korea but nonthreatening against missile systems deployed in the vast expanses of Russia and China, thus making it

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more acceptable to the established nuclear powers. And because it has the virtue of its limitations—nonthreatening to Russian or Chinese strategic forces—a boost-phase system would be more acceptable to other governments.

Russia's concern is that space-based sensors and other components of a boost phase, or indeed any, missile defense system, could be upgraded to provide more data, thereby giving defensive systems more capacity. And looking ahead, it worries about a multitiered U.S. missile defense that would include space-based lasers and interceptors. "Space could become Russia's Stalingrad," says Roald Sagdeev, former director of the Space Research Institute in Moscow.

Just as western European leaders worry about Russia's reaction to missile defense, Russia worries about China's reaction (or overreaction). If Russia bends, China will claim the moral high ground.

The Chinese reaction to missile defense proposals is negative, strongly felt, and expressed mainly in terms of cross-strait relations. China worries about political trends leading Taiwan further away from the fold. The Chinese leadership, its control at home gradually eroding, cannot allow itself to be accused of "losing Taiwan," especially when President Jiang Zemin is trying to arrange his own succession.

Beijing assumes that a U.S. missile defense would be directed against Chinese forces.

Deeply conscious of its vulnerability, China believes a system such as the one Clinton put forward would wholly neutralize China's small strategic force and could therefore threaten China's survival. And since China undoubtedly thinks of North Korean strategic weapons as nonexistent and conjectural, its leadership assumes that a U.S. missile defense along those lines would actually be directed against Chinese forces. China will almost certainly hedge against the prospect by expanding its strategic forces beyond the modest upgrade now underway. China could equip them with multiple warheads, a step that missile defense makes more attractive.

As of now, China's nuclear deterrent is composed of 20 or so old, slow-reaction, liquid-fueled missile systems of dubious reliability; their warheads and fuel are stored separately. Also, China's strategic

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thinking has never had an American focus. Its forces have a largely regional focus, with many of them reserved for Russia. China's upgrade is most unlikely to alter that pattern by creating a force that is more than a deterrent—one that might actually threaten its American counterpart. Still, Washington, as in the past, could overreact to whatever China does and set in motion a self-fulfilling prophecy. It used to be called the "action-reaction cycle."

A similar cycle could beget a nuclear arms buildup in South Asia. Washington tends to see Pakistan as India's major concern, even though China, which has been the main supplier of Pakistan's nuclear technology, is the abiding source of Indian insecurity. Indeed, India can deploy a more than ample retaliatory capacity against Pakistan but has almost no such ability to strike the Chinese heartland. And if China's upgrade enlarges its threat to India, as it probably will, India will expand its forces accordingly. Pakistan will follow suit. The world will indeed have become a more dangerous place. Missile defense can produce this scenario.

Among the parties most concerned with Washington's decision are Japan, South Korea, and Taiwan. For them, U.S.-China relations are much more than a bilateral affair. They are uncomfortable whenever the two are seen as being close, but more so when Washington and Beijing are feuding. Treating China as a threat places Japan, for example, squarely between its principal ally and its mighty neighbor.

EUROPEAN WORRIES

OVER the past century, the United States has been instrumental in cleaning up Europe's messes. For a change, Europe is looking at a made-in-America mess and wondering what to do, apart from hoping that cost and technological difficulties will make NMD go away. German Chancellor Gerhard Schröder and other Europeans have worried aloud that a U.S. decision to protect itself with NMD could lead to divergent security systems within NATO—more specifically, a fortress America.

Well before Bush was inaugurated, Europeans were aware that he could and probably would create major rifts, first by gutting or killing the ABM Treaty; second, by ignoring or trashing the Comprehensive

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Test Ban Treaty; and third, by mishandling the complicated Russian account or, much worse, humiliating Russia. For Europeans, missile defense is to a large degree a Russian problem. They do not want to be seen in Moscow as complicit in the death of the ABM Treaty or in the creation of NMD. And one of Europe's apparent options in the early going would have amounted to taking up Putin's suggestion of a joint approach to missile defense involving Russia and NATO members, including the United States. His proposal, a three-step affair put forward in February, would start with an assessment of the threat, followed by a hard look at alternative systems for coping with it, and finally, development and deployment of whatever response, if any, might be agreed to.

European leaders wondered for a time whether they could discourage a flat U.S. rejection of Putin's proposal that is consistent with language in the NATO-Russia Founding Act of 1997. Washington, they reckon, should understand the importance of having Russia on board. All parties, they could point out, are trying to reduce the threat from weapons of mass destruction.

Regarding Russia, President Bush, in his speech of May 1, said, "perhaps one day we can even cooperate in a joint defense." Whatever the intent of this language, European governments should at least try to make something useful of it. They could and should propose the broader approach to missile defense that Clinton did not take and Bush is not taking. Briefly, the Europeans could do the prudent and sensible thing by stressing the threat that is and will remain—the threat from irrational forces with access to frightful weapons, including short- and medium-range missile systems. Putin's proposal, as noted, would begin by assessing the overall threat.

But the political cost of joining forces with Russia even in this way may be too much for Europe's diffident leaders. The cost would be exacted in Washington, a town that has become increasingly tone deaf since the Cold War ended. Long before the arrival of Bush II, Europeans were complaining that Washington was confusing consultation with edicts.

Missile defense, by exceeding its political tolerances, will become the poster child for multiple complaints about American unilateralism

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and indifference to the concerns of others. Besides weakening NATO, it could also induce a false sense of security in the United States about the threat of being attacked with truly frightening weapons or the danger of an accidental launch of a Russian ICBM.

A perverse irony lies within. A credible NMD—one that could overcome the simpler and cheaper gadgets designed to spoof it—might in the end be out of reach. But the necessarily huge effort in resources, time, and energy would not have been much ado about nothing. The political damage would have been done.

Along the way, national missile defense may breach some of technology's frontiers, but it is unlikely to remove or contain the serious threats to stability and security. Instead, it could make the world less stable and the United States a more insular and more vulnerable place.

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Indonesia Unraveling?

David Rohde

SEARCHING FOR AN ANSWER

AT FIRST GLANCE, the Tagolu village community hall has the look of an American Grange hall. Rough wooden planks line the floor. A worn but sturdy podium sits at the end of a room that can hold 50 farmers. The roof is tin and rusting.

But hanging from a beam in the center of a room typically reserved for celebrations and weddings is a crude, handmade noose fashioned out of three electrical wires. Its maker clearly took pride in his craft: he painstakingly twisted a fourth wire around the main coils to ensure the noose would be strong enough to choke the life out of a human body.

A small section of the floor beneath the noose is stained black. A few feet away, much larger smears cover the floorboards. A soldier guarding the site points out shapes: a bloody handprint near the center, a bloody footprint a few inches away. "They probably tried to run away," he says. Spread across the room in disparate patterns, the stains form a map. Spattered drops mark where a victim was first slashed. A larger stain signals where life seeped out of the body. A long smear traces how the corpse was dragged away for disposal.

The remains of ten people were buried in pits in a schoolteacher's backyard a few hundred yards away. Several had been decapitated. One body was that of a pregnant woman. "I'm sure whoever killed them was really drunk," the soldier offers, trying to explain what happened here. "If not, they wouldn't have had the heart to do it."

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The victims were among more than 250 people killed last year during street clashes between Christians and Muslims in the town of Poso in eastern Indonesia. Bordered by turquoise sea, verdant mountains, and emerald rain forests, the bustling harbor town appears an unlikely axis of religious hatred. But over the course of 18 months, what began as a fight between two drunken teenagers—one Christian, one Muslim—mutated into open communal warfare. Street battles ravaged 20 towns and villages surrounding Poso, destroyed 3,500 homes, and created 70,000 refugees.

In a once rapidly modernizing nation, groups of Christians used machetes to behead dozens of Muslims. Residents of towns equipped with automatic teller machines and satellite television breathlessly told tales of warriors using black magic to fly through the air and deflect bullets.

Last summer, I went to Poso to try to understand what had happened there. I had covered the war in Bosnia, and the same virus that had ravaged the Balkans—ethnic and religious conflict—had now seemingly spread to Indonesia, the world's fourth most populous nation. The stories from Poso and other troubled areas were familiar. Rumor, fear, and extremist propaganda warped average people's perceptions. Neighbor slowly turned on neighbor. The state gradually dissolved.

No one knew the exact course of events in Poso. A petty dispute had somehow sparked savagery. In the single worst incident, Christian attackers descended on the village of Sintuwu Lemba on May 28, 2000. They rounded up its Muslim women and checked each one to see if she had gems embedded in the walls of her vagina—a sign of the black magic locals believed witches practiced. "They called us in one by one to the room," a victim told me. "They just said 'strip.'"

The village's Muslim men fared worse. After 70 of them retreated into a local school and surrendered, the Christians opened fire with homemade guns, according to survivors. They then moved in with machetes to finish their work. Over the next several days, Christians hunted down Muslims hiding in the area. They marched one group of prisoners to the banks of the Poso River, slashed their throats, and cast their bodies into the muddy water. Others were brought to the meeting hall in nearby Tagolu, where the homemade wire noose awaited them.

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The clashes were not inevitable. Although Poso dissolved into street melees, other religiously mixed communities remained calm in the face of extraordinary provocation. In the city of Manado, 400 miles north of Poso, Christians defecated on Muslim prayer rugs and Muslims firebombed churches—but widespread fighting did not erupt. Why had one community been able to absorb provocation while the other exploded? Why had so many average people in Poso joined the bloodletting? And were the clashes destined to spread across Indonesia, turning this vast, once promising nation into another failed state? There was a logic, I hoped, hidden somewhere amid the brutality.

NEW ORDER

AT DAWN on a hot August morning, a translator and I set out on the six-hour drive to Poso from Palu, the provincial capital and the nearest town with an airport. We headed east on the Trans-Sulawesi highway, a two-lane, 1,100-mile-long artery that spans the island. Poso and Palu lie near the center of Sulawesi, a sprawling island of 13 million people that lies due south of the Philippines. With four gangling peninsulas extending for hundreds of miles, the island looks like a giant starfish spread across the sea.

The narrow road wound up and down a rugged mountain range covered with thick jungle vegetation and then descended onto a lush coastal plain. Turning south, it passed through prosperous fishing and farming hamlets. The area's beauty was dazzling. A brilliant green mountain range towered above, bordering a clear blue sky. Light green rice paddies and a cobalt sea flanked the road. Coconut trees surrounded the small, white cinder-block homes of local cocoa and rice farmers.

The area had the feel of the American West. Over the previous two decades, Sulawesi had received a massive influx of settlers from other parts of Indonesia. New roads cut through hillsides, connecting bustling frontier settlements filled with Muslim farmers from the island of Java. Hindu farmers from Bali built villages with brilliant blue and red houses set on stilts and radiant statues depicting their gods. The migrants had come to Sulawesi as part of a massive

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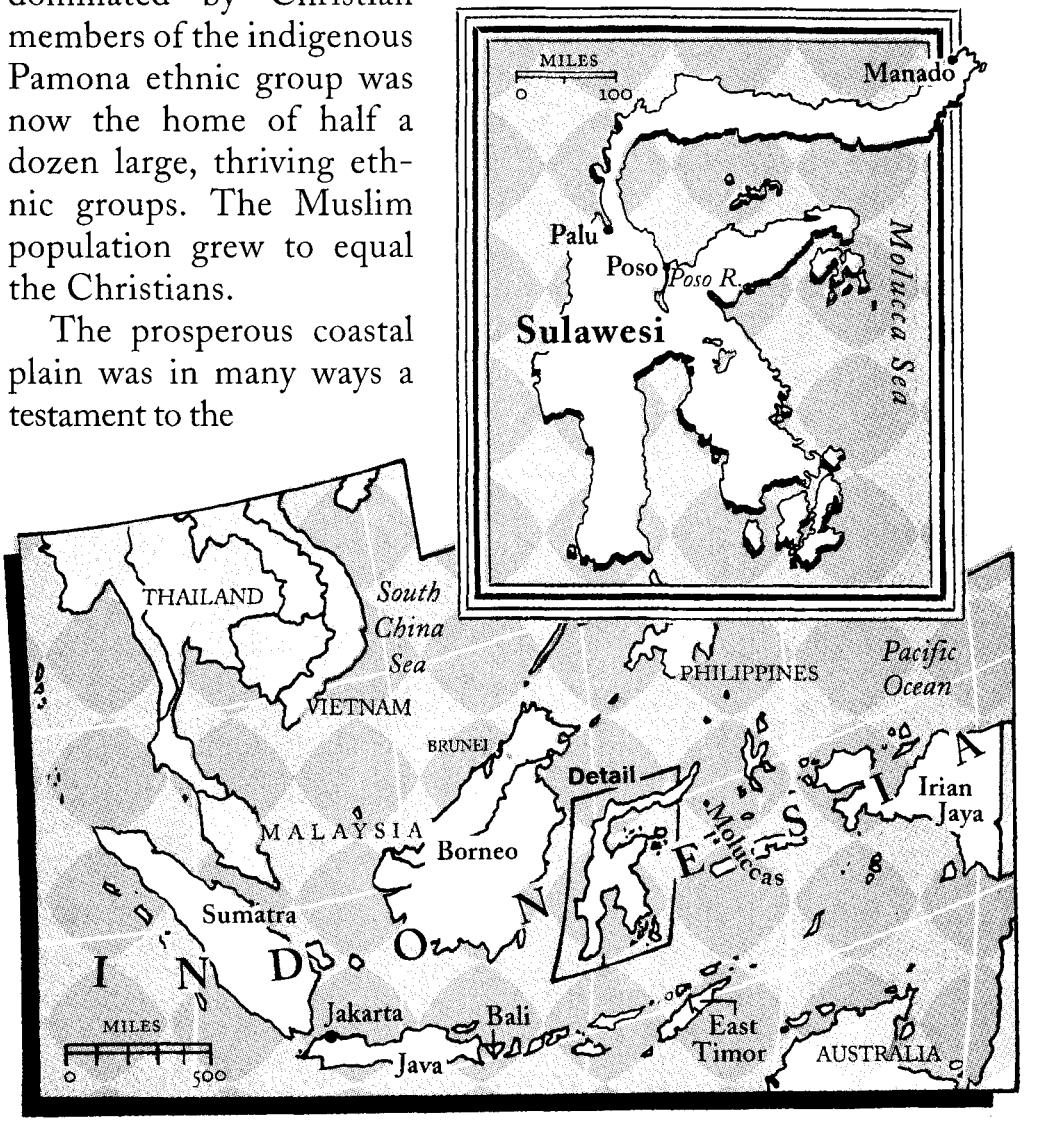
resettlement program mounted by Suharto, Indonesia's long-time dictator. Families had been offered incentives to move from the overcrowded islands of Java and Bali to less populated islands such as Sulawesi. From the early 1970s to the late 1990s, close to 10 million people from across Indonesia participated in the program. Poso received more than 30,000 Balinese Hindus and Javanese Muslims. At the same time, tens of thousands of other Indonesians, most of them Muslims, flocked to the area on their own. The new arrivals transformed the region. An isolated area once dominated by Christian members of the indigenous Pamona ethnic group was now the home of half a dozen large, thriving ethnic groups. The Muslim population grew to equal the Christians.

The prosperous coastal plain was in many ways a testament to the



MAP BY IB OHLSSON FOR FOREIGN AFFAIRS

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apparent success of Suharto's Indonesia. Through 30 years of iron-fisted rule, Suharto tried to fuse 214 million people from hundreds of different ethnic groups, spread across an archipelago of 17,000 islands, into a secular, multiethnic state. Hindu and Buddhist kingdoms had ruled the area until Islam arrived in the thirteenth century and became the dominant religion. The Dutch seized power in the seventeenth century, launching 300 years of brutal colonial rule and Christian proselytizing that embedded in the culture a deep resentment of outsiders. Indonesia finally won its independence in 1949 after a bloody four-year uprising. The battered new nation was 85 percent Muslim but had large Christian, Buddhist, and Hindu minorities and hundreds of different ethnic groups.

Decades of gradual modernization in the Suharto era had disintegrated into primal violence.

Sukarno, an independence leader and Indonesia's first president, came from Java, the most populous island. He dominated the country, crushing separatist movements on Sulawesi and other islands and creating a national lingua franca—Bahasa Indonesia—to unify its people. Amid chaotic political violence in 1968, Suharto, another Javanese leader, seized power and launched the "New Order." Suharto's flagrantly corrupt regime reinforced Jakarta's dominance, building itself on forced economic development and the suppression of discussion of religious and ethnic difference. On outlying islands, resentment of Java simmered.

Hopes for reform soared after a 1998 student uprising forced Suharto's resignation. But the country's new president, Abdurrahman Wahid, has proved weak and erratic. Wahid has struggled to control the military, which carried out a brutal scorched-earth campaign in East Timor after its people voted for independence in 1999. His government, following Suharto's precedent, continues to violently suppress long-running independence movements in the provinces of Aceh and Irian Jaya. And a local political struggle has sparked religious clashes in the Moluccas, a chain of islands 300 miles east of Sulawesi, where more than 3,000 have died. An array of forces is chaotically at work in the vacuum left by Suharto—a faltering

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economy, massive corruption, a scramble for power among the elite, and a decline in the rule of law.

But as we closed in on Poso, signs of the New Order's economic achievements abounded. Japanese-built trucks and scooters jammed roads that had been dirt tracks 20 years earlier. Commercial rice and cocoa farming had replaced subsistence agriculture. Satellite dishes linked once isolated farmers to the outside world. Globalization appeared to be busily at work. The most popular television shows were American—*Baywatch, The X-Files,* and *WWF Smackdown.*

SILENT COMPLICITY

THE FIRST incinerated home appeared ten miles outside Poso—a pile of ash, cinder blocks, and charred tin roofing. A few feet away, another darkened shell sat empty. Someone had scrawled graffiti across a nearby wall: "Destroy it. We don't want peace."

For the next ten miles, the wreckage continued. On the outskirts of Poso, a handful of the 1,000 soldiers and special police deployed in the area manned a checkpoint. A young soldier played the guitar as an army officer approached the driver's window. "Don't worry," he said with a smile. "It's quite safe now."

Down the road lay more graffiti. "Greetings from the black bats" was scrawled across one wall. "Never-ending revenge" was emblazoned across another.

Poso itself was devoid of life. A burnt-out gas station sat on one side of the road. A church lay in ashes on the other. A bank, a Suzuki scooter dealership, and Panasonic and Technics electronics stores, all shuttered, lined a mile-long business district. Soldiers and police seemed to outnumber civilians. We sped on, crossing a bridge over the muddy Poso River. At the peak of the clashes, police had stood on the bridge and counted the bodies floating by on their way out to sea.

Our destination was Tentena, a Christian stronghold situated on a huge lake in the highlands above Poso. A Dutch Protestant missionary had settled there in 1892 and began a successful drive to spread Christianity. Under Suharto, Tentena had gradually developed into a

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small tourist center. But when we entered, the town was devoid of foreigners and instead packed with refugees. On every third or fourth block, a charred ruin marked the remains of a Muslim home or shop. Each structure still standing had a small red cross drawn on it. Some were marked with two words: "Hallelujah. Hallelujah."

The only functioning hotel was a small, two-story structure with an abandoned wooden tour boat rotting half-submerged in the water nearby. Yellowed pictures of smiling Australian backpackers gathered dust in a darkened restaurant down the shore.

At first, practically no one would admit to having participated in the clashes. One Muslim man did acknowledge taking part in the fighting and told a vivid story of how he and his friends used a stick with black magic powers to kill a Christian leader. Asked who looted the church beside his home, he said, "the mob." Asked who he blamed for the clashes, he said, "the youth."

But clear proof of broad participation in the fighting sat in a community hall beside the mayor's official residence. Thousands of homemade spears, bows and arrows, slingshots, shields, bombs, and firearms that police estimated took months, if not years, to make sat in huge piles. The weapons, collected in army sweeps in both Christian and Muslim areas, were physical testaments to a grassroots determination to kill. Hundreds of match heads had been mixed with nails and placed in plastic bottles to make crude bombs. Carefully welded pipes attached to pieces of wood served as guns. Nails and broken glass served as bullets.

In their silence, local officials and residents of Poso did convey a deep sense of shame about what their community had become. Each morning, squads of soldiers jogged down Poso's main street carrying assault rifles and singing martial songs. The sound of their combat boots echoed eerily off buildings, giving the town the feel of an armed camp. Shrubs in front of the town hall that spelled out Poso's motto—"Unity and togetherness"—were overgrown with weeds. Communal graves overlooking the town held the bodies of 103 victims whom local officials were unable to identify, because their heads were missing or their bodies had decomposed beyond recognition. Hand-written paper signs identified each cluster of victims. "Group one: 12 people," one sign read. "Group two: 19 people," read another.

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BREAKDOWN

GRADUALLY, over the course of several days, residents confirmed the broad outlines of the clashes as described in local news accounts and aid group reports. Police officials, speaking on condition of anonymity, filled in the gaps. The fighting had evolved in three distinct chapters.

In a rare convergence of religious calendars, December 24, 1998, was one of the holiest days of the year for both Christians and Muslims: Christmas Eve for followers of Christ; the first night of Ramadan, Islam's holiest month, for followers of Muhammad. Shortly after midnight shouts erupted in one neighborhood. In the midst of a drunken fight, a teenager, who happened to be Muslim, retreated to a mosque. His pursuer, who happened to be Christian, stabbed him on the terrace and fled.

The wound was not fatal, but word of the attack prompted anger among both Muslims and Christians the following morning. Leaders of the two religious communities prayed together and blamed the same demon, alcohol. Both sides agreed that a rarely enforced national law barring the sale of alcohol during Ramadan would now be strictly enforced.

For two days, police confiscated alcohol from stores, hotels, and restaurants and burned the offending liquid. But some youths carried out raids of their own, looting and damaging stores in the process. A Chinese Christian storeowner gave a group of youths free liquor in exchange for guarding his shop. When another group arrived to check for alcohol, a melee erupted. The store was quickly set ablaze and other Chinese Christian stores were looted.

The attacks quickly took on religious, not ethnic, overtones. Within hours, rumors that churches were aflame in Poso prompted hundreds of Christian farmers to gather just outside Poso in a community hall in Tagolu—the same building that was later a torture center. The town's Muslim police chief and other officials convinced the crowd that the rumors were untrue and the Christians dispersed. But Herman Parimo, a Christian member of the district parliament, disappeared when it was his turn to calm the throng.

The following morning, several hundred Christians armed with machetes arrived in Poso on trucks. Parimo appeared to be leading

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them. Hundreds of Muslims, including youths from nearby towns, grouped in another part of town. Gathering Muslim imams and Christian priests together, town officials negotiated a truce that afternoon. But when the religious leaders told the crowds of the agreement, they refused to disperse. As police focused on holding back the Christians, a group of Muslims swarmed into a predominantly Christian neighborhood, looting and burning whole blocks. In all, 387 homes were incinerated.

Christians would bitterly complain when the local government failed to prosecute any Muslims for the house burnings, but they carried out no retaliatory attacks. Calm reigned in the town for the next year. The cycle of revenge seemed to have been broken.

But then on April 15, 2000, a Muslim teenager returned to his predominantly Muslim neighborhood with several cuts on his arm. The boy complained that Christians had attacked him. That night, hundreds of Muslims marched on a Christian neighborhood in search of the boy's attackers. Police managed to contain the crowd but requested reinforcements from the provincial capital. The Muslims again tried to storm the neighborhood the following morning. After the crowd hurled Molotov cocktails and advanced toward the neighborhood's towering church, the police reinforcements fired shots. Three civilians were killed and tensions soared.

The governor of Central Sulawesi visited Poso the following day and urged calm at a public meeting. Aliansah Tompo, a Muslim businessman seen with the crowd the previous day, stood up and demanded that the police reinforcements withdraw. In a move that would prove disastrous, provincial leaders agreed to his request.

The following morning, reports that a Muslim man had been stabbed to death in a Christian neighborhood prompted a Muslim rampage. On the main street, a Christian truck driver and his assistant were pulled from a vehicle and hacked to death with machetes. All told, seven people died, tens of thousands fled, and 687 homes were burned to the ground. The scale of destruction had doubled and Poso was now divided. Muslims remained in the town itself, while Christians fled to inland towns and villages.

Within weeks, Christians began carrying out revenge attacks. In their first raid, a group of Christians got lost in a predominantly

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Muslim neighborhood, killed an off-duty police officer and another man, and fled into a Catholic church. Enraged Muslims quickly surrounded them. Police arrived and the Christians agreed to surrender. But the officers—30 men armed with plastic shields and rattan sticks—struggled to control the Muslim crowd. After police reinforcements failed to arrive, the mob broke through police lines and the Christians raced out the back of the church. Only three were captured.

The failure to arrest the group was ruinous. Within days, the band's leaders began carrying out a series of well-organized attacks on Muslim villages around Poso. The raids culminated in the attack on Sintuwu Lemba, where Muslim men were taken to the nearby Tagolu community hall and tortured.

LOCAL POLITICS

As people gradually acknowledged what had happened, a logic to the violence emerged. During the final decade of Suharto's rule, municipal leaders were puppets appointed by Jakarta. The strong-armed central government brutally suppressed any hint of religious, ethnic, or political dissent. A Muslim served as Poso's mayor throughout the 1990s without incident.

But once power began to shift from Jakarta to local governments in the wake of Suharto's fall, a political struggle developed in Poso. Local businessmen and politicians were eager to win lucrative local government posts that now controlled public works contracts and other patronage. In municipal elections, a myriad of political factions fiercely jockeyed for power. One group, dominated by ethnic Pamona Christians, grew disgruntled after its candidate for mayor lost an election. Another faction, primarily comprising Muslim members of the Tojo Una ethnic group, was likewise angered when its candidate for deputy mayor lost. During the first two rounds of fighting, members of each of the political groups were seen helping spark clashes. Parimo, the parliament member seen leading the Christian mob, was a member of the Christian Pamona faction; Tompo, the businessman seen leading a Muslim mob, was a backer of the Muslim Tojo Una faction. But the fighting quickly spread beyond each faction's control.

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But focusing solely on local political leaders failed to explain the crucial element that made such broad destruction possible: Why had hundreds of average people heeded the calls of extremists and joined in the bloodletting?

HOW THE NOOSE TIGHTENED

On one of my last nights in the Poso area, I walked into the home of Akram Kamaruddin, the speaker of the local parliament, expecting more denials or rambling conspiracy theories. At 48, he was one of the most powerful figures in Poso. His official residence, a spacious home a few hundred yards from the town's municipal complex, had gone untouched during the fighting.

Kamaruddin, a stout man with thick dark hair and a fierce-looking face, strode into the room dressed in a formal gray suit. Up close, he had dark circles under his eyes. As he sat down on his couch, he appeared utterly spent. The town he had helped build lay in ruins. Whether out of despair or exhaustion, the parliament leader was astoundingly open. He said the causes behind the clashes went beyond local leaders and spent the next hour and a half describing how the town's social structure had rotted away at its core.

Many of the people who participated in the first round of fighting were teenagers and young men in their twenties. Kamaruddin and other town officials took to the streets with bullhorns as crowds of young Christians and Muslims hurled stones at each other. "I asked them, 'Go back to your homes. Don't continue what you're doing,'" he said with a plaintive look in his eye. "They said 'Don't preach to us! Go home!'"

He said the area's rapid economic development had undermined traditional social structures. His own family was an example. Kamaruddin worked so many hours that he spent little time with his four children, and their relationship had frayed. Longer work schedules also undermined an Indonesian tradition of neighbors playing a large role raising children. Two things emerged to fill the void, he said: satellite television and alcohol. Sounding like an American parent, he complained bitterly about the media. Television exposed youth to street clashes in other parts of Indonesia

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and American programs glorifying individualism and violence. Too many teenagers, he lamented, were drinking.

Although Poso had easy access to highly developed global and national media, it suffered from grossly underdeveloped local news services. Despite being the largest community within 150 miles, Poso had no newspapers, no local television, and only three functioning radio stations. In this absence of credible sources for local news, wildly inaccurate rumors fueled the clashes. And reporting by media outlets in Palu, the provincial capital, gave biased accounts of the attacks that only exacerbated tensions.

Local politicians were seen leading groups of fighters during the religious violence.

To make matters worse, the police failed to arrest most of the Muslim perpetrators of the initial attacks. The courts failed to prosecute the few suspects brought before them. And the town's politicians, priests, imams, and even civic organizations had little authority among average people, who viewed most of them as corrupt. "The civil society was not strong," Kamaruddin said. "It's never been that functional."

In other communities, extremist calls for violence might have been ignored. But they found a receptive audience in Poso, Akram said, because of simmering tensions in the town. Over time, Muslim migrants aided by government resettlement programs and other settlers had gained economic and political power, prompting resentment among Christians native to the area. Muslim traders from South Sulawesi, members of the Bugis ethnic group, came to dominate the local market. Muslim farmers from Java prospered in the villages around Poso. Inhabitants of Sintuwu Lemba, the village where Christians carried out their worst attack, were Javanese Muslim farmers who bought up the land of neighboring Christian farmers.

"The provocateurs magnified the whole thing," Kamaruddin said, a despondent look passing across his face. "The mob got carried away."

As we drove out of Poso the next morning, I felt I had a rough sense of the town's dissolution. Some leaders had chosen to play on underlying economic and religious grievances, and the town's fragile political and social structure could not absorb the pressure.

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Years of autocratic rule from Jakarta had blocked the emergence of strong and savvy local leaders. Bans on discussing religious and ethnic differences had allowed tensions to fester. Incompetent and corrupt law-enforcement officials had solidified perceptions that justice could be achieved only by taking to the streets. The fighting had not been spontaneous; that crude wire noose had been years in the making.

PERILS AND PROMISE

INDONESIA is not yet lost. If Poso is a microcosm of the dynamic that threatens to tear the vast country apart, Manado, the religiously mixed city to the north that has remained calm, may represent its promise.

Last summer, I met Manado's popular Christian mayor, a skilled politician who made a point of publicly preaching tolerance and including Muslim and Christian religious leaders in major events. He and the local police chief quickly responded to hints of trouble with officers in riot gear, a priest, and an imam. A strong local economy, higher education levels, and a long tradition of tolerance helped the city absorb provocation.

The U.S. embassy has launched a series of programs designed to keep the violence in Poso and other flashpoints from spreading. The U.S. Agency for International Development's Office of Transition Initiatives is funding conflict resolution workshops, programs to train and equip local independent journalists, and a study by local university professors of what caused Poso to implode. Similar efforts are underway in Manado and cities across Indonesia.

Rob Watson, a South African consultant who has worked on conflict resolution projects in Poso, said the institutions that can hold a society together—police, courts, local governments, houses of worship, the media—had all failed in Poso. Slowly strengthening institutions, training local moderates, and creating channels to vent tensions, he said, would help stem further clashes.

But those efforts will not be enough. Poso is just one small fissure among many. Violence is perilously close to breaking out all across Indonesia. In West Kalimantan (on the island of Borneo) last February, members of the indigenous Dayak ethnic group attacked Madurese settlers, accusing them of unfairly seizing land and taking

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economic and political control of the area. More than 450 people died. Islamic extremists are actively trying to foment the clashes in the Moluccas, which have already left 3,000 people dead. And Christian-dominated police units and Muslim-dominated army units sent to quell the fighting have openly fought one another.

Across the country, the Indonesian military remains a dangerous and unpredictable force. The country's new leaders have still not gained full civilian control over the armed forces, which have been known to tolerate and even foster violence when it serves their own purposes. The fighting in the separatist province of Aceh has grown so fierce that ExxonMobil has shut down all of its operations there, and the violence continues to escalate. A growing number of people view the military as the only institution that can stabilize the country. President Wahid has been discredited and could soon be impeached after serving only one-third of his five-year term—an outcome that thousands of his supporters have vowed to protest by rioting. Meanwhile, the country's legislators continue to act more like political opportunists than leaders. Political infighting, graft, and a decline in the rule of law are endemic. There is no penalty for corruption and lawlessness.

A country with centuries of experience with corrupt, oppressive rule and no experience with power-sharing needs far better national leadership and greater international support if it is to successfully enact democratic reforms. In a pattern seen in other failed states such as the former Yugoslavia, the weak central government has been unable to control growing economic and political tensions in the wake of the dictator's fall. Opportunistic leaders have played on repressed ethnic and religious tensions for political gain. Clashes are blamed on ethnic and religious hatred, but economic woes and political jockeying are their root cause.

To prevent the disruptions from spreading further, Indonesian leaders as well as the United States and its allies must take far bolder action to implement political reforms and halt the violence. The government's policy of allowing the creation of new provinces should be discontinued, the decentralization of power slowed, and the influence of the military curbed until the country's police and court systems are strengthened and President Wahid's fate is decided.

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Most important, large-scale debt relief must be granted and then used effectively to revive the country's moribund economy.

The danger is evident in Sulawesi. Intermittent bomb attacks and house burnings in and around Poso this winter prompted more than 5,000 people to flee the area once again. In April, three Christians accused of leading the attacks were sentenced to death, but no Muslims have been prosecuted for their role in the conflict. Even Manado is struggling. Last summer, leaders of the local ruling party failed to renominate the city's well-liked mayor, prompting residents to accuse them of corruption. This winter, Muslim political leaders in a nearby city demanded greater self-rule and were allowed to break away and create their own province.

Agus Madina, a Muslim college student I met in Manado last summer, expressed the sense of unease in the city. He was an admirable figure who showed the situation was not hopeless. After a group of Christian youths fought with Muslims from his neighborhood, Agus and his friends had called the police instead of retaliating. But the young man warned that refugees from religious fighting in Poso and the Moluccas continued to arrive. The refugees, Agus explained, were dangerous. "They bring their disease here," he said. For now, his city is holding. But his country may be unraveling.

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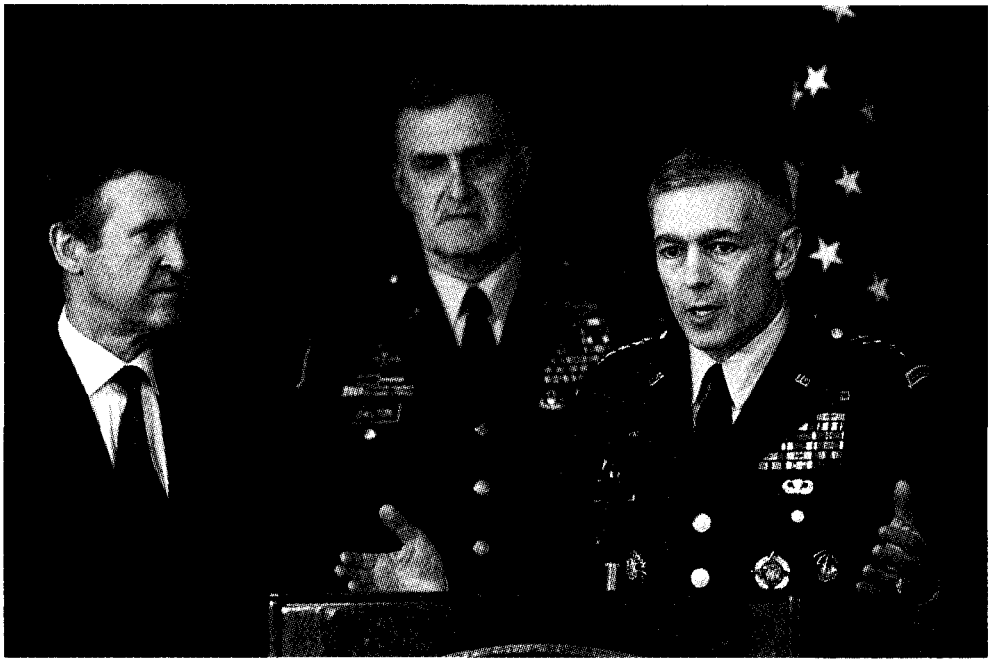
Reviews & Responses



CORBIS - BETTMANN

General Wesley Clark with Secretary of Defense William Cohen and Chairman of the Joint Chiefs of Staff Henry Shelton at a NATO briefing, Germany, May 1999

Clark's campaign against Serbia was subjected to more conflicting pressures—political, diplomatic, military, and legal—than any other in history.

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Review Essay

Compromised Command

Inside NATO's First War

Richard K. Betts

Waging Modern War: Bosnia, Kosovo, and the Future of Combat. BY GENERAL WESLEY K. CLARK. New York: PublicAffairs, 2001, 479 pp. $30.00.

As NATO's Supreme Commander during the air war over Kosovo, Wesley Clark should have been the most supreme commander ever. In theory, he controlled history's biggest and broadest alliance in its first venture into combat. In fact, however, his command was compromised by more conflicting pressures—political, diplomatic, military, and legal—than any other in history. Given these constraints, keeping the enterprise from flying apart was no mean feat, and Clark has a right to be proud of the victory he helped to achieve. But the story he tells in *Waging Modern War* makes one wonder how much that victory owed to luck—despite the utterly lopsided balance of power between the West and Serbia. As Clark's account suggests, we have reason to worry if NATO ever has to maintain solidarity and combat effectiveness in a fair fight.

Many of the problems Clark confronted were typical of any war. Others, however, were unprecedented. The Kosovo air war was waged by a 19-member coalition operating by consensus, making it the most multilateral campaign ever. Clark's position in the resulting maelstrom was also unique: he was the nexus of American and European demands and of civilian and military authorities. From this vantage, he observed a slew of serious problems in NATO's approach. In less diplomatic terms than Clark uses to describe them, these problems included making war without admitting that it was war, and a clash of confused notions of how to use force effectively. Clark also faults the American military for failing to support

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the war properly. His accounts of the straitjacket that NATO legal advisers put on tactical options are laughable—but only because Serbia's inability to fight back kept such restraints from endangering NATO forces.

WAR ON THE FLY

Clark cites Karl von Clausewitz's dictum that sane people should not start wars unless they have plans for how to finish them. Clark does not mention Napoleon's more adventurous view, which turned out to characterize NATO's approach to Kosovo: *"On s'engage et puis on voit"* (you engage and then you see). After half a century of unprecedented institutionalized cooperation in peacetime planning for war, NATO's first actual war was initiated, fought, and ended with no agreement among its members—or within the councils of its single most important member, the United States—on objectives, strategy, or limits of action.

Clark notes that Clausewitz's dictum was a lesson that Vietnam burned into the minds of his generation of military officers, but he rejects it as "an unreasonable standard." A Rhodes scholar who studied at Oxford two years before Bill Clinton, Clark makes clear that he is not representative of his military cohort, which reacted to failure in Vietnam by becoming "much more combat-focused, much less academically inclined." That difference was only magnified when Clark assumed the dual role of supranational commander of NATO and national commander of U.S. forces within NATO, responsibilities that often seemed to conflict.

The disastrous results of incremental escalation in Vietnam instilled in U.S. officers the conviction that if force is used at all, it must be used decisively from the outset to overwhelm and crush enemies—not in gradual doses, with the hope that opponents can be prodded into changing their minds. When attempting coercion, restraint is self-defeating, signaling to the enemy not how much it should fear, but how little. A crushing conquest imposes the attacker's will; limited coercion gambles on the target's weakness of will.

Clark, however, proved unwilling to admit the necessity of making a choice between strategies to crush Yugoslavia and strategies to prod it. Thus he describes the planned first phase for the air campaign against Serbia as deliberately restrained—leaving many assets unstruck, "held hostage" as "incentives for the Serbs to halt." This is straight out of the 1965 playbook for the air war against North Vietnam. Yet in the same breath Clark describes why he felt good about the plan: "No half measures. No Vietnam."

It would not have been hard to crush Serbia had the West been willing to make any significant effort. But NATO did not want a real war, and refused even to call its aerial assault by that name. NATO started the campaign with the expectation that it would be short, and with no exit strategy if President Slobodan Milošević turned out not to be a pushover. Clark was uneasy about the European preference for indecisive force but did not dig in his heels against it. As he puts it, if NATO countries "wanted to fire a few cruise missiles to make a political statement, did I have the right to say they couldn't?"

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AMERICA'S GENERAL OR EUROPE'S?

Clark's contradictory embrace of both decisive force and limited coercion as strategies reflects the position he held as the link between American and European preferences. Before Kosovo, when Americans thought about war, the model they tried to avoid was Vietnam. For Europeans, however, it was World War II, which had a much more devastating impact on the continent than it did on the United States. The Cold War reinforced this European aversion to decisive force, because NATO doctrine during that period relied on the threat of deliberate nuclear escalation to deter Soviet conventional attack. That reliance made it almost impossible to contemplate the actual resort to force that a failure of deterrence would require. Thus "the idea of decisive force never made it into NATO thinking," Clark found, and this made Europeans profoundly ambivalent about combat over Kosovo.

Rhetoric aside, many on both sides of the Atlantic proved averse to using decisive force against Serbia. To make matters worse, politicians undercut the effectiveness of coercion by announcing publicly just how limited military pressure would be. After President Clinton put all of NATO's strategic eggs in one basket—airpower—by announcing that he did not intend to use ground forces, NATO Secretary-General Javier Solana undermined the coercive potential of the air campaign by suggesting that it would last "days, not months." Given this one-two punch against NATO's own strategy, it is little wonder that Milošević thought he could outwait the bombing.

On the strategy for the air war, Clark was pulled in opposite directions by American military hawks and European civilian doves, and he tilted to the Europeans by acquiescing to a limited campaign. Yet on strategy in general he felt undercut by his military colleagues at home. As Clark saw it, U.S. officers and Secretary of Defense William Cohen resisted his efforts to move toward combat on the ground, undermined his attempts to get Apache helicopters into combat, subverted his command by conferring directly with his subordinates, and contradicted him in diplomatic consultations with allies. As Clark complains, despite the fact that the Goldwater-Nichols legislative reforms of 1986 were supposed to have made regional commanders like himself central figures in the U.S. chain of command, "somehow I had become just a NATO officer who also reported to the United States."

The orthodox view among professional officers is that U.S. military leaders failed in Vietnam by their supine complicity: the Joint Chiefs of Staff went along with irresponsible strategic decisions made by the civilian leadership, thereby supporting a limited intervention that was bound to fail. Some top officers in Washington sought to avoid repeating this mistake in Kosovo by dragging their feet to prevent large-scale involvement. Yet by doing so, ironically, they ended up supporting the use of indecisive force. To Clark, some of his colleagues "seemed determined to resist their obligation to win." To his dismay, they also resisted making the maximum effort in the Balkans for fear of diminishing the readiness of forces for Iraq or Korea: "The Chiefs were seriously considering withholding forces to be ready

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for two ... hypothetical major theaters of war elsewhere, even if it caused the United States and NATO to lose the actual war in Europe."

Beginning with his assumption of command for the occupation of Bosnia, Clark became persona non grata in Washington. At one point he even heard that General Henry Shelton, chairman of the Joint Chiefs of Staff, was saying that Clark "had one foot on a banana peel and one foot in the grave." Several days into the air war, Clark reflected ruefully on how odd it was that he had never been invited into strategy discussions with either the secretary of defense or the president. As he plaintively recalls, throughout the war "I always flashed back to the television footage of General Schwarzkopf going with General Powell to Camp David to brief President George Bush on the Persian Gulf [War]."

Cohen and Shelton even tried to prevent NATO's supreme commander from attending the NATO summit held in Washington during the war. Clark went anyway, and he reports a poignant scene that took place at a reception hosted by the American leadership. As he approached a receiving line that included Clinton, Secretary of State Madeleine Albright, Cohen, and Shelton, several of them glanced at him. "'Stay away' was the clear message from the body language. It was jarring." But once Europeans entered the room, Clark was soon surrounded by a respectful group of ministers and heads of state, "making me almost the center of a second receiving line." If not a prophet, Clark was a commander without honor in his own country. Indeed, after victory the supranational commander received the ultimate snub from his national superiors—they booted him from office several months early to make room for a top Washington player, Vice Chairman of the Joint Chiefs of Staff Joseph Ralston.

LAWYERS IN COMMAND

The most bitter objection that has been leveled at U.S. civilian leaders for the air war against North Vietnam was that they micromanaged the campaign by picking bombing targets themselves. By 1999, however, neither the Clinton administration nor the Europeans seemed concerned about this criticism. Clark had to have every target approved not only by President Clinton but by Solana as well, along with American and European lawyers.

One of the most striking features of the Kosovo campaign, in fact, was the remarkably direct role lawyers played in managing combat operations—to a degree unprecedented in previous wars. Clark does not rail against this phenomenon, but his matter-of-fact reporting of how the process unfolded is enough to shock any student of wartime command. The role played by lawyers in this war should also be sobering—indeed alarming—for devotees of power politics who denigrate the impact of law on international conflict. It may be reassuring, on the other hand, for those opposed to the long-standing NATO doctrine that relies on the first use of nuclear weapons. Judging from the standards applied against Serbia in the only war NATO ever actually fought, it is obvious that no U.S. commander will ever receive permission to launch a nuclear weapon. After all, as strategists used to joke during the Cold War, European towns are only a kiloton apart.

The hyperlegalism applied to NATO's campaign made the conflict reminiscent of

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the quaint norms of premodern war, when merchants on each side would continue to trade with each other at the same time that their militaries were bloodying themselves in the field. In the Kosovo campaign, no Western trade embargo was levied against Yugoslavia, even while NATO planes bombed Belgrade. The laws of war did not fully apply because NATO had not formally declared war, and some allied countries could not legally prevent their firms from exporting oil to Serbia. As Clark complained pathetically at the NATO summit, "it made little sense to bomb Milošević's petroleum storage facilities and at the same time let him import oil."

Meanwhile, NATO lawyers constrained even the preparation of options for decisive combat. Clark could not effectively plan for the use of Apaches in Kosovo "because the Army lawyers were interpreting new federal law to mean that until Congress was notified of the impending deployment, we were not permitted to spend any funds preparing for it." Once the Apaches were finally deployed to the region, they could not even rehearse their mission because they lacked the legal authorization for the supporting artillery and rocket fires that would have been needed to suppress enemy defenses in the path of the helicopter attacks. Without understanding the operational problems that made such requirements impractical, NATO lawyers insisted that all targets had to be directly observed shortly before firing. Carried to this extreme, NATO's lawyers thus became, in effect, its tactical commanders.

PUNISHMENT WITHOUT PAIN?

The reason that these unusual tactical inhibitions were placed on NATO forces was the fear of collateral damage—inadvertent killing of civilians. Yet accidents there were, and each one increased the diplomatic pressure from European governments to rein in the bombing campaign. This situation highlighted the fundamental contradiction between NATO's strategy and its politics, giving the clearest example of the Europeans' intent to wage a painless war. A strategy of coercion that forswore conquest on the ground logically depended on maximizing the punishment imposed on Serbia from the air. The targets with minimal risk of collateral damage, however, were used up in the early part of the war. To keep the pressure on Milošević, Clark had to struggle constantly for the authorization to hit targets that involved more risk of hurting civilians.

Yet the Europeans continued to resist, and the game almost came undone as diplomacy to end the war reached closure. Converging cold feet threatened to undermine the application of military pressure. Due to the political restrictions, Clark was left with few targets to strike anywhere in the country. On top of this, Germany wanted to stop bombing Serbia's cities, Americans worried about bombing within Kosovo, and France wanted to stop the bombing in northern Serbia. Instead of worrying that a letup in bombing would encourage Belgrade to hold out even longer, the Europeans feared that continued attacks would derail final negotiations. It was only through luck that Milošević caved in just at the point that Clark saw the air war "slipping away."

Many speculate that Milošević capitulated because he feared an impending NATO attack on the ground. Even if this was so, it was not thanks to NATO's strategy. Allied governments, in fact, did all they could to prevent credible moves toward a

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ground war. Clark could not even get permission to plan for such an attack. He scrambled frantically to get the necessary authorization before June 1, when the window would close for a land attack before winter. But in the White House, National Security Adviser Samuel Berger refused permission, saying he needed more time to lay the political groundwork. In retrospect, this decision is even harder to understand than President Woodrow Wilson's refusal in 1914 to let the U.S. military make contingency plans after the outbreak of war in Europe. Even after many months of preparing for the Kosovo air war, after making the decision to attack Yugoslavia, and after many weeks of the war itself, NATO's civilian leaders were still not ready to prepare the option of assuring victory.

The civilians wanted it both ways. When officials in Washington finally got around to considering whether to invade, they then demanded details from the military—details they had not allowed the military to develop. "Surely you've been doing covert planning," one official then said to General Shelton. In the end, all Clark ever got permission for was to move some combat engineers to Albania, thus barely keeping the option of an invasion alive. *On s'engage et puis on voit.*

A VICTORY OF SORTS

It all worked out in the end, however. Or did it? After 78 days of absorbing NATO bombing, Milošević came to terms—although he did not accept all the conditions of the original allied ultimatum issued at the February 1999 talks in Rambouillet, France. Whipsawed by Washington and European governments, limited in the instruments he was allowed to use or even plan for using, Clark, using NATO's air forces, still got Milošević to withdraw from Kosovo. Mission accomplished, more or less. Considering how potentially disastrous the war looked for NATO in the middle of those 78 days (and I confess to being one of those "experts" who did not believe at the time that the allies would get out of it as cleanly as they did), it would be petty to quibble too much with Clark's pride in the outcome. If loose ends remain, these should be blamed more on the political authorities who determined the objectives of the war than on the commanders who prosecuted it.

The main loose end that remains today is the indefinite occupation duty that has been imposed on NATO and the U.N. NATO ended the war by precluding independence for Kosovo, agreeing to the province's remaining under Yugoslav sovereignty. It is not clear, however, how the West will ever end its occupation without betraying either the peace agreement with Belgrade or the Kosovar Albanians for whom it fought the war. Perhaps when the time comes, NATO lawyers will become as permissive with alliance policy as they were strict in wartime, and will invent a legal fig leaf either for granting Kosovo independence or for certifying that a reformed Serbia is now safe enough for Kosovo to submit to its writ. But however either sort of betrayal is rationalized, this step will not be a proud epilogue to the aggressive moralism of NATO's first venture into war.

As NATO's supreme commander during the war, Clark himself is not totally free of responsibility for its political outcomes. For example, he has little to say in *Waging Modern War* about the damage the war

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did to relations with the only potential strategic adversaries that matter: Russia and China. In the final stages of the war he lobbied energetically against a peace agreement that would allow the Russians their own occupation zone in Kosovo, lest that create a de facto partition of the province. But are we really better off having prevented partition, now that U.S. occupation troops are the ones who have to struggle to keep Albanians from cleansing Serbs from the province, just as the Serbs tried to cleanse them before?

In the immediate aftermath of the war, Clark responded to the Russians' seizure of the Priština airfield by seeking to oust them. After his subordinate on the ground, British General Michael Jackson, told him, "I'm not starting World War III for you," London ordered Jackson not to comply with Clark's order to block the airfield's runways. The British action averted any potential crisis, something about which Clark was apparently not concerned. His attitude toward containing the Russian role was consistent with the general confidence about NATO's hegemony in Europe and America's hegemony in NATO that was implicit in the whole enterprise.

But even though Clark's prose reveals a sharp sensibility about most things, he has a tin ear for Russian interests. He reports how Russian General Viktor Barynkin told him during the Dayton negotiations, "We know what you Americans are up to. ... You are coming into Bosnia because it's in our part of Europe and you want to be there. And you say you will be gone in a year, but you won't be; you will stay." Clark reflected that the Russians "saw the peace plan in Cold War terms ... to establish spheres of influence," as if the Russians were hidebound reactionaries. Yet nothing that has happened in the six years since proves Barynkin wrong. What are the Balkans now if not an expanded sphere of influence for NATO—one nudging Russia's front door?

In most ways, NATO's story has been one of unparalleled success. The alliance hung together for half a century, fulfilled its original objectives completely, and won its most important struggle (the Cold War) hands down, without firing a shot. Instead of retiring after that victory, however, the alliance expanded its ambitions and within no time wound up killing people and breaking things for humanitarian purposes. Was it all for the best? Much of the verdict will hinge on how the alliance extricates itself from the two areas over which Clark's command presided, Bosnia and Kosovo. On that we must await some other leader's memoir, *Waging Modern Peace.*

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Review Essay

The Conscience of a Conservative

The Dangers of Dogmatism in U.S. Foreign Policy

Michael Mandelbaum

Does America Need a Foreign Policy? Toward a Diplomacy for the 21st Century. BY HENRY KISSINGER. New York: Simon & Schuster, 2001, 320 pp. $30.00.

In the 1890s the young George Bernard Shaw earned his living as a music and theater critic. Convinced that he could do as well as the dramatists whose work he was reviewing, he turned his hand to writing plays, and the rest is literary history. The career of Shaw's fellow Nobel laureate Henry Kissinger followed a similar trajectory. During most of the 1950s and 1960s he was an academic who produced, in a series of books and articles, a sustained critique of American foreign policy. Then, in 1969, he got the chance to conduct that foreign policy himself, and the rest is diplomatic history.

Whereas writing plays can be a lifetime's occupation, however, conducting American foreign policy cannot. And so, twenty-five years after he left government and in the wake of three monumental volumes of memoirs of his time in office, Kissinger has returned to his first career. *Does America Need a Foreign Policy?* is an assessment of, and a set of prescriptions for, the foreign policy of the United States in the wake of the Cold War.

During his first tour of duty as a critic, almost everything Kissinger wrote addressed the great global conflict between the United States and the Soviet Union. The present volume, written for a more complicated era, consists of essays on six different subjects: relations between the United States and Europe, U.S. policy in

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the western hemisphere, the American role in Asia, the turbulent politics of the Middle East, the promises and perils of globalization, and the effort to put considerations of justice rather than the search for peace at the heart of Washington's approach to the rest of the world. Disparate though these subjects are, the author's views on them share a common feature.

George Bernard Shaw was a radical. In his writings and his public activities he attacked what he saw as the archaic customs and arbitrary restrictions that obstructed progress, impeded human happiness, and generally made things worse than they could and should have been. Henry Kissinger, by contrast, is a conservative who believes that not only could things be better, they could also be worse. The presiding theme of the chapters of this book is the conservative's awareness of the fallibility of human design and the recurrence, in human affairs, of unintended and unwanted consequences.

The book has both a message and a mood—both words and music—and the music is the stately, subdued sound of the viola and the cello, not the triumphant blare of the brass or the soaring creations of the clarinet or the saxophone. The musical analogue of *Does America Need a Foreign Policy?* is a Bach cello suite, not a John Philip Sousa march or a Charlie Parker improvisation. The book's message is a version of the conservative wisdom: beware the dogmatic application of doctrines or principles—no matter how well intentioned—to the messy realities of international affairs. For the United States after the Cold War, a country with immense international power and no shortage of doctrines or people eager to implement them, this is a message worth heeding.

PEACE, JUSTICE, AND BALANCE

The book's most important essay concerns the post–Cold War effort to make American foreign policy an instrument of justice in the world, and in particular the Clinton administration's signature policy for this purpose: humanitarian intervention—the use of force against a sovereign state to stop its government from mistreating its citizens. Kissinger sympathizes with the impulse that motivated this policy and understands its deep roots in the American experience. But he notes that the implementation of the policy, if anything, set back the cause it was intended to advance.

The Clinton administration's practice of humanitarian intervention was wildly inconsistent. It launched two military campaigns against Serbia while ignoring more widespread slaughter in Africa, justifying the Russian assault on Chechnya, and warmly welcoming to the United States the second-ranking military official of perhaps the worst human-rights violator on the planet—the communist government of North Korea. The policy therefore lacked both clarity and predictability, necessary conditions for sustaining public support in the United States. By going to war against Serbia over Kosovo without the sanction of the United Nations and against the objections of a number of prominent countries such as Russia, China, and India, moreover, the Clinton administration deprived humanitarian intervention of what any global doctrine requires: international legitimacy.

In fact, U.S. policy in the Balkans in the 1990s bears out the wisdom of Kissinger's message. In Bosnia and Kosovo the Clinton administration spurned peace, which would have involved separating the warring national groups, in favor of justice, which it

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defined as the peaceful coexistence of these groups in a single, united, multiethnic political jurisdiction. Although central to the public life of the United States, a country populated mainly by people who immigrated as individuals and voluntarily assumed American nationality, the principle of multiethnicity is inapplicable in the Balkans, where nations that had lived on the same territories for centuries were brought together involuntarily in new, independent countries by political decisions in which they did not participate.

Thus none of the groups in Bosnia or Kosovo accepted the principle that the Clinton administration sought to impose on them, and for this reason the administration failed to impose it. In both places these groups are still kept apart by NATO garrisons, the departure of which could lead to renewed fighting. The failures have been costly: in lives lost that might have been saved had the administration not ruled out partition, which might have ended the fighting sooner; in moral principles compromised when the United States tolerated, in both Bosnia and Kosovo, the kind of ethnic cleansing of Serbs that it had condemned as criminal when practiced by Serbs; and in the political and military investments necessary to keep American and European troops in the Balkans indefinitely.

The book's most eloquent chapter concerns globalization. Kissinger recognizes the enormous benefits the spread of free markets has brought to the world. But he calls attention to the human costs of the social dislocation that the normal workings of the market create and to the hardships inflicted when market-created bubbles burst, as occurred in eastern Asia in the late 1990s. He is particularly unhappy with what he considers the International Monetary Fund's overzealous demands for policies of economic austerity in response to the Asian crises; the implementation of these policies in the afflicted countries endangered the political consensus in favor of liberal economic practices upon which free markets must rest.

In Asia and the Middle East, two important regions where peace, prosperity, and democracy are neither widely nor firmly established, Kissinger commends to American policymakers a quintessentially conservative aim: maintaining a balance of power. Although China would certainly be a more decent country if it adopted American political values and Japan perhaps a more prosperous one with American economic practices, and although every country of the Persian Gulf would undoubtedly be better off by embracing either or both, the United States does not have the power to bring about these results. Its first priority in both regions should therefore be to ensure that no local actor achieves the kind of military predominance that could threaten its neighbors and American interests. Those coming to *Does America Need a Foreign Policy?* in search of fresh approaches for a new era will find in these chapters a prescription for the oldest foreign policy of all.

CONTROVERSIAL QUESTIONS

In his essay on America and Europe, Kissinger takes up two issues with which the Bush administration will have to grapple. On one of them his position seems to violate his own conservative instincts. The issue is ballistic missile defense. He favors it. He favors it despite lacking settled views on just what kind of defenses should be deployed and what

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threats they should be designed to counter. "An early American commitment to a [missile defense] program," he writes, "is essential." "The decision of missile defense having been made," he goes on, "an open-minded study should seek to determine the most appropriate technology."

Asked his view of Western civilization, Mohandas Gandhi is said to have replied that he thought it would be a good idea. The same is surely true of missile defense. If the United States can deploy a defensive system that makes the country safer and better able to advance its interests in the world it should certainly do so. Whether this is possible, however, will depend on a range of technical and political considerations complicated and uncertain enough to preclude definitive judgment at present. In the spirit of conservatism, Kissinger warns elsewhere in the book that the single-minded pursuit of humanitarian intervention, or of a policy of containment toward China, risks alienating other countries and isolating the United States. Since every major country has expressed serious reservations about missile defense and several are adamantly opposed, the course he prefers on this issue would seem to run the same risks.

On another important issue Kissinger's recommendations are uncharacteristically incomplete. The question of how best to provide for security in Europe preoccupied American policymakers during the Cold War and is a subject on which he has written and spoken authoritatively for nearly half a century. The Clinton administration's major European initiative was the expansion of NATO to include Poland, Hungary, and the Czech Republic. Kissinger approves, but takes that administration to task for downplaying the most important reason for expansion: "to eliminate once and for all the strategic vacuum in Central Europe that in the twentieth century had tempted both German and Russian expansionism."

For history to repeat itself, some country would have to play the part of one of the two totalitarian powers. It is inconceivable that peaceful, democratic Germany would do so, which leaves postcommunist Russia as the only candidate. "NATO must be maintained," Kissinger believes, "as a hedge against a reimperializing Russia." But if Poland, Hungary, and the Czech Republic were vulnerable to Russia without NATO membership, the former Soviet republics (now independent countries) of the Baltic region—Estonia, Latvia, and Lithuania—are even more vulnerable. All of them share borders with Russia. Here Kissinger is cautious: "Given its historical experiences, Russia is bound to have a special concern for security around its vast periphery and ... the West needs to be careful not to extend its integrated military system too close to Russia's borders."

He therefore seems to endorse the logic but oppose the policy of including the Baltic countries in NATO. This is not an academic question. NATO is committed to expanding in 2002. The Clinton administration unequivocally promised the Baltic countries that they would not be left out. Russia has made known its adamant opposition to their inclusion. The issue is therefore destined to rise to the top of the American political agenda. When it does, it is to be hoped that Henry Kissinger will return to it and that, in doing so, he will bring to bear the historical perspective, the analytical lucidity, and the well-developed sense of the dangers of dogmatism that grace the pages of this valuable book.

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Review Essay

Classic Diplomacy in the Information Age

Hubert Védrine Explains French Foreign Policy

Stanley Hoffmann

France in an Age of Globalization. BY HUBERT VÉDRINE AND DOMINIQUE MOÏSI, TRANSLATED BY PHILIP H. GORDON. Washington: Brookings Institution Press, 2001, 190 pp. $16.95 (paper).

In June 2000, France's foreign minister, Hubert Védrine, published *Les cartes de la France à l'heure de la mondialisation* to address questions about French diplomacy. His interviewer was Dominique Moïsi, editor of *Politique étrangère* and deputy director of the Institut Français des Relations Internationales—France's equivalents of *Foreign Affairs* and the Council on Foreign Relations, respectively. The statements of Védrine, who had also been the secretary-general of the French presidency under François Mitterrand, are interesting for two reasons: first, they project light on some very controversial policies; and second, they reveal a style of intelligent foreign policy analysis and lucid detachment that is rare among heads of state and academics today. This is one of the reasons why the reader is often reminded of Henry Kissinger. Moïsi's questions are probing, and he never hesitates to indicate the disagreements between himself and Védrine. Thanks to Moïsi's polite provocations, the foreign minister's cool discourse often heats up.

The American edition, admirably translated by Philip Gordon, goes even further than the French version. It includes a fresh discussion of events since last year, such as the European Union (EU) summit in Nice last December; Védrine defends rather convincingly France's

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conduct at the summit, which came under wide criticism. The American version also contains a spirited (if oblique) reply to Tony Judt's vinegary review of the French edition in *The New York Review of Books* last April.

The book does not offer a detailed analysis of French diplomacy per se. Rather, it assesses France's situation and objectives in a world in which the state's importance as a global actor has diminished. Two concerns dominate the book: the continuity of French foreign policy and the United States' weight in world affairs. Following the principles drawn up more than 40 years ago by Charles de Gaulle, France continues to insist on the role of a major international actor. Indeed, both the left and the right agree on this ambition, which has made political cooperation between President Jacques Chirac, a neo-Gaullist, and Prime Minister Lionel Jospin, a socialist, quite easy in foreign affairs. This continuity also still irritates those "Anglo-Saxon" commentators who believe that France's defeat in 1940 should have cured it of its ambition to retain a global role. Indeed, "Anglo-Saxon" continuity in dismissive irritation is as tenacious as French continuity in obstinate and distinctive ambition.

On the subject of the United States, Védrine is in fact much more subtle than many other French commentators. He rightly points out that globalization operates in a framework favorable to Americans, thanks to the size of the U.S. economy, the use of English, American free-market principles, America's "mastery of global images," and its "technological and cultural creativity." But he explicitly dismisses the view that globalization is "the completion of an American plan." Although the United States' "soft power" complements its "hard power," he argues, its ability to compel others is sharply limited by two constraints: "the natural indifference of a people who, sheltered by their geography and their power, feel self-sufficient," and a political system "torn between isolationism and hegemony."

Védrine is more critical of other aspects of U.S. policy such as missile defense, which he views as an irrational American obsession that will provoke a new arms race. He also takes aim at America's cultural preponderance in globalization, including its desire to treat cultural goods as if they were ordinary products or services. "The United States is on its way to becoming a global Microsoft when it comes to the mass culture business," he warns. Nevertheless, he eloquently praises Bill Clinton, and he insists on distinguishing anti-Americanism, which he rejects, from the desire of France and Europe to preserve their distinctiveness—"allied but not aligned."

THE NEW COLONIALISM?

Védrine's vision of globalization is original and far from effusive. Globalization may not be good for democracy, he believes, because it is not necessarily adopted democratically. (Colonial expansion, he repeatedly points out, was the first form of globalization.) Its embryonic international civil society is made up not of elected representatives but of active minority interests of the most powerful countries. But even though globalization is not an unmitigated blessing for the poor and the weak, neither is it necessarily a boon for France. Its defining features—market neoliberalism, mistrust of big government, and excessive individualism—

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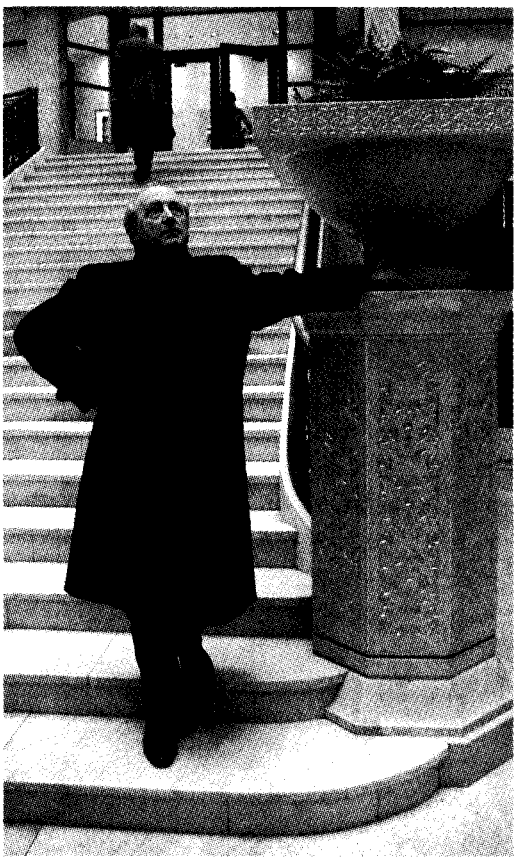
correspond to neither French tradition nor French culture. With an identity built on its central state, he points out, "France must make an exceptional effort to adapt."

Yet while France adapts, Védrine continues, it also must act as a "civilizer" that counters the dark side of globalization's free-market ideology and the new threats of the post–Cold War world: weapons of mass destruction, organized crime syndicates, and terrorism. Hence he makes a plea for more rules and regulations—which can come only from states, not from international civil society—and greater solidarity and economic fairness among nations. (Here, too, his socialist discourse is remarkably Gaullist.)

Globalization also needs to be contained in the one crucial domain of culture, Védrine argues. No French speaker will find surprising his defense of the French language, the "genetic code" of his country. He does not mean this as an insult to other languages. Rather, he sees language as the cement of French unity, a role similar to the one played by the U.S. Constitution for Americans. Furthermore, Védrine's plea for cultural diversity and a robust French cultural policy is one that Americans should have the imagination to accept. Would they react any differently if, say, the Chinese language dominated the Internet, world business, politics, and culture?

Unfortunately, Védrine does not say enough about French policy in Africa—perhaps because he is in a difficult position to do so. He cannot—and does not wish to—endorse past practices that were shockingly undemocratic and corrupt, including those under Mitterrand. Nor does Védrine want to condemn these



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The French exception: Hubert Védrine, Chicago, March 2000

policies publicly, since he had served as Mitterrand's aide and remains Chirac's foreign minister. But he is more explicit and persuasive on the Arab-Israeli conflict. Calling for a real EU policy, he asks the Israelis to understand that they need to accept a "genuinely viable Palestinian state" and the Palestinians to understand the deep Israeli need for security; he also praises Clinton's active intermediary role as "essential and extraordinary."

L'EUROPE, C'EST NOUS

On globalization and the Franco-American relationship, in short, Védrine is quintessentially French. On Europe, however,

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Védrine takes a more pragmatic course. He defends EU enlargement as necessary and rightly argues (contrary to critics such as Judt) that Mitterrand did not try in 1991 to keep eastern Europe out of the EU, in a permanent limbo, with his "confederation" proposal. But Védrine erroneously blames Czechoslovakia's president, Vaclav Havel, for this fiasco, rather than the proposal's faulty formulation, which included Russia but excluded the United States.

Védrine is also right that a 27-member EU will be a very different entity from today's 15-member organization. It will need far less byzantine institutions and much greater diversity in the links among the members. Védrine is quite explicit on the latter subject, preferring "variable geometry" (different participants for different functions) over the idea of a "core" surrounded by less-integrated countries. But he has very little to say about what kind of institutional design would fit his kind of Europe, and he provides no encouragement to the "Federalists," who now include German Foreign Minister Joschka Fischer and German Chancellor Gerhard Schröder. Although he acknowledges the meaninglessness of monetary sovereignty for EU members (especially the non-Germans), he defends their right to conduct their own foreign policies. As he sees it, a single monetary policy will coexist with a common (but not single) foreign policy that "orchestrates" the diverse views of its members—whose viewpoints about European-American relations are too divergent to come down to a single approach.

Védrine's rather lukewarm stance on European integration may result from his conviction that the EU has done little to enhance France's power since the early 1990s, even with German unification aside. On Germany, his discussion is also devoid of illusions. He sees the Franco-German partnership as less harmonious than before, but he acknowledges that cooperation between the two remains necessary, if no longer sufficient, for integration's progress. Védrine also does not fret over Germany's potential domination of Europe in the way that so many foreign experts (Judt included) would expect. Védrine's silence on this topic is not proof of his anxiety. When he writes that Germany's rediscovery of its national interests is perfectly normal, he is simply following his own view of the state as the primary actor.

In defense and foreign policy, Védrine takes a similar tack. Europe's role, he believes, will be to organize the convergence of state policies, and each foreign minister will have to merge national interests with the growing "European interest" that results from such convergence. Védrine acknowledges that a larger Europe will not be France writ large, but he shows sufficient confidence in French strength to believe that this mix of national self-assertion and cooperation is satisfying. He endorses the planned EU rapid reaction force but does not touch on the controversial issues of the extent of its autonomy and its relationship to NATO.

Védrine's pragmatic approach to European integration raises three questions. First, how effective will the future EU be if it maintains its intergovernmental institutions in diplomacy and defense while the Council of Ministers remains the predominant legislative organ, even when the supranational European Commission plays a major role in areas such as economic and social policy? Will the French and the

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British—the most reluctant "Federalists"—be forced to choose between a federal Europe and the mixed approach that Védrine espouses? The United States once had to move from a confederation to a federation. Although parallels between European and American integration are perilous, considerations of integration's effectiveness may be compelling in both cases. Second, can one call for a multipolar world and yet, as Védrine does, relegate Europe to a diplomatically limited role with "too many voices and not enough policy" (as Moïsi puts it)? After all, France plus the kind of Europe that Védrine describes do not constitute a powerful enough "pole."

Finally, there is the question of inspiration. The EU has been built on a mix of material interests and visionary faith. That faith has helped its members overcome crises and periods of stagnation. A Europe based on pure reason is certainly conceivable, but it needs a vision that transcends dry computations of interests. In fact, the definition of interests varies depending on the passions and emotions of the players. Védrine's passion is France; as long as there is no need to choose between France and Europe, his cool approach to Europe makes sense. But a greater ambition or enthusiasm for Europe—which Védrine seems to shy away from—might help make such a choice unnecessary. It could also build a European "public space" that could soften the EU's reputation as a distant, technocratic bureaucracy.

To his credit, Védrine wisely rejects "an attitude of gloomy nostalgia" and the bloated rhetoric of France's "universal message." Instead, he believes, Europe needs to go beyond the "Scandinavian" concept of merely being a "morally exemplary" space; it must seek to be "a power in its own right." But this call presupposes truly collective ambitions as well as the common institutions that would enable the EU to pursue them. In short, it goes beyond the Europe of delicate balances and compromises that Védrine seems to favor. But how seriously does he take this contradiction?

A KINDER, GENTLER FOREIGN POLICY

Védrine makes clear he is a subtle practitioner of realpolitik in the tradition of Richelieu, Talleyrand, and de Gaulle. This is a brilliant lineage, but is classical realpolitik—even when acutely aware of the needs of developing countries and the legacies of colonialism—capable of coping with the formidable threats of globalization? Védrine leaves that question unanswered.

Védrine administers a series of cold showers to Moïsi's pleas for "a true international morality," and he is superb at puncturing excessive hopes and illusions. He is rightly cautious about indiscriminate enthusiasm for military intervention in civil wars and the difficulty of achieving democracy from the outside. He also acknowledges that not everyone wants Western democracy, and he stresses the difference between evangelization for human rights and the necessary search for peace. Many violations of human rights result from the weakness of some democratizing states, he argues, and democracy is the product not of a conversion but of a process. Védrine is correct to denounce economic sanctions that hurt innocent people but not their evil governments. Bringing criminal leaders before international tribunals, he says, does not resolve problems, end dictatorships, or heal countries. Threats of punishment do not necessarily deter aggression, and diplomacy must deal with both good and bad

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regimes. To him, the reform of international law may be less essential than the fight against "the unfathomable injustices of globalization."

In fairness, Védrine does make some concessions to liberals. He defends NATO's intervention in Kosovo and condemns Russian methods in Chechyna; he also supported EU pressure on Vienna after Jörg Haider's far-right Freedom Party joined the Austrian government. He comes down in support of the International Criminal Court (ICC). But his general caution—that the infusion of "Western" ethics into foreign policy will be perceived by non-Western peoples as parochial or arrogant—goes a bit far. Non-Western peoples often share these values, and many people in the West do not share liberal values. Furthermore, a sensible emphasis on processes—linking democracy with development, for instance—requires a clear and strong vision of the direction for this process. An interest-based foreign policy alone cannot provide such a vision. Instead, such a vision should be considered part of the national interest. Acting on strong moral convictions ought to be part of an ethic of responsibility.

Sovereignty may indeed represent "dignity, national identity, and protection against" the worrisome encroachments of globalization, but it also protects scoundrels more often than Védrine suggests. He also goes too far in downplaying the ICC's significance, giving credit for its existence to a voluntary delegation of power by states—but nothing more. Defending French security, autonomy, interests, and values may indeed be the "classical" and "most basic" expectation of French foreign policy, but Védrine's impatience with those who think that "France's special role consists of intervening abroad in the interests of others" is more than a little excessive.

A classic republican patriot determined to keep France a global power, Védrine faces a world in which his country is overwhelmed by the American "hyperpower" and globalization. Given this, his realism has many virtues: it guards against the temptation of French hubris, and it wisely appeals to the French to understand that French unilateralism would be as ineffective as American unilateralism is dangerous. His defense of state sovereignty is sufficiently enlightened to accept the necessity of pooling sovereignty for such cases as European integration or international justice.

Like American diplomacy, however, French foreign policy has often shown a big gap between a tough, realistic approach, aimed at preserving French power and influence, and an idealistic and universalist rhetoric. Sometimes these two sides have converged, such as in de Gaulle's Algeria policy after 1962. Sometimes, the gap has been shocking, as in the Balkans before 1995 or with central Africa in general. Védrine is a good example of this tension between realism and idealism, although he leans more toward the former. But to be at ease in the new century, France needs the appeals of genuine idealism—call it "idealpolitik"—as much as national ambition. Even from a realpolitik perspective, idealism matters. An important state such as France needs it to bolster its "soft power." It requires the glue of coalitions with necessary partners to increase its influence, and it needs to rely on such purveyors of idealism as the media and the nongovernmental organizations that Védrine so sharply criticizes. Idealpolitik is good in itself—and good for realpolitik.

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Review Essay

Weapons Without Purpose?

Nuclear Strategy in the Post–Cold War Era

Robert Jervis

The Price of Dominance: The New Weapons of Mass Destruction and Their Challenge to American Leadership. BY JAN LODAL. New York: Council on Foreign Relations Press, 2001, 160 pp. $19.95 (paper).

With the end of the Cold War, most Americans stopped thinking about nuclear weapons. They assumed that such weapons were now of little use and that Washington would soon sensibly wrap up any remaining problems in the nuclear arena. In *The Price of Dominance*, however, Jan Lodal warns that this complacency is unwarranted and proposes a comprehensive nuclear strategy for the post–Cold War era. Unfortunately, Lodal's recommendations have greater merits than chances of being adopted. And because he treats so many issues in fewer than 150 somewhat repetitive pages, readers receive a great deal of information quickly but without much depth. Those who disagree with him or advocate alternative policies are unlikely to feel that he has dealt adequately with their positions—let alone be convinced by his.

One point on which Lodal cannot be disputed, however, is his claim that U.S. nuclear policy has drifted since the Cold War. Here he speaks with some authority, having served on the staff of the National Security Council under Presidents Richard Nixon and Gerald Ford and having worked for the Defense Department in the Clinton administration.

The end of the Cold War has brought more changes to world politics than to the American nuclear posture. The 1997 Strategic Arms Reduction Treaty (START III)

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called for the United States and Russia to reduce their respective nuclear arsenals to 2,000–2,500 warheads, but political obstacles have prevented ratification and both countries have retained much larger forces. And although the 1972 Anti-Ballistic Missile (ABM) Treaty sharply limited missile defenses, the national missile defense (NMD) plans sketched by the Clinton administration would have required the treaty's revision. Now President George W. Bush has called for scrapping that treaty in favor of developing an extensive version of NMD. U.S. officials argue that missile defense is aimed not against Russia or China, but rather against accidental launches and "rogue" states such as North Korea, Iran, and Iraq. But the issue is complicated by the fact that both technically and politically, NMD overlaps with proposed theater missile defense (TMD) systems designed to protect both U.S. forces in the field and U.S. allies, especially in the Middle East and eastern Asia. Furthermore, nuclear weapons are now only one subset of a larger category of weapons of mass destruction (WMD), with terrorists and rogues perhaps more likely to favor chemical or biological weapons because they are easier to obtain—although all WMD are more easily available now than they once were, thanks to the spread of information, technology, and expertise.

Understanding these problems is difficult in part because the context in which they arise is unique. No modern country has ever dominated the world to the extent that the United States does today. This situation makes it hard to rely on models from the past. It also gives the United States unprecedented possibilities for leadership while simultaneously making it the target of not only extremists around the world but also many ordinary countries resentful of such concentrated power. In this setting, Lodal argues cogently, Washington needs a coherent policy that can cover a broad range of WMD issues in a way acceptable to, even if not welcomed by, Moscow, Beijing, and its allies.

NO MORE MR. TOUGH GUY

At the core of Lodal's proposed "strategic vision" lies a reaffirmation of deterrence rather than defense as the central principle of U.S. nuclear strategy, coupled with an understanding that "no amount of military strength will allow America to deal with [the] new threat alone; a multilateral consensus will be required." The two elements are linked. One reason why current U.S. nuclear policy meets with opposition from Russia and others is that the large number of offensive nuclear weapons that it involves, especially in conjunction with the proposed NMD, might credibly threaten Russia's retaliatory capability, thus subverting the logic and stability of mutual assured destruction. During the Cold War, some strategists considered this offensive nuclear predominance desirable as a way to counter a Soviet conventional threat to Europe. But if such a stance was appropriate in the past, it is no longer relevant today, when U.S. offensive strikes against Russia and China or protracted wars requiring the destruction of vast numbers of military targets are unthinkable.

If policymakers accepted this truth, Lodal notes, the United States could dispense with its land-based intercontinental ballistic missiles and base its deterrence strategy on a second-strike capability of

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roughly a thousand highly survivable weapons based on bombers and in submarines. It could also adopt a thin NMD system like the one President Bill Clinton endorsed, a posture that would not threaten Russia's retaliatory capability. Although the United States could proceed toward it over Russian opposition, Washington and Moscow could solidify the gains of this more palatable U.S. policy and improve political relations through concurrent arms-control talks aimed at what Lodal calls "strategic transparency, safety, and stability." Such a package could also provide the political foundations for U.S.-Russian cooperation against nuclear proliferation and terrorism.

Lodal calls for a limited NMD intended not to cope with an all-out Russian or Chinese attack, but to guard against accidents and third-party strikes while removing the possibility that Russia or China might use the threat of a limited nuclear strike as a coercive tactic. He accepts with equanimity the prospect that if Washington went ahead and deployed NMD, Beijing would increase and modernize its strategic missile force to ensure that it could penetrate U.S. defenses. But the book does not discuss whether an improved Chinese capability might allow a Sino-Russian alliance to threaten the U.S. deterrence capability, especially at the low level of U.S. forces Lodal proposes. Moreover, the author thinks robust TMD capabilities can combat many threats and should be deployed in eastern Asia because "China has no legitimate reason to threaten Taiwan or Japan militarily." But he is too quick to gloss over the likely political implications of such a move. Of course TMD would have favorable political effects if it convinced China that military threats against Taiwan would be useless at best. But whether this would, in fact, be China's reaction is unclear and requires more discussion, as does the range of coercive instruments China could employ against Taiwan (such as harassment of shipping) that TMD would not affect.

STRENGTH IN NUMBERS

Lodal shares the widespread view that the greatest WMD danger today comes from rogue states. And missile defense, he notes, cannot prevent WMD attack because missiles are only one, and perhaps the least likely, of the delivery systems available. So Lodal advocates supplementing defense and arms control with greatly enhanced intelligence and law enforcement. Accordingly, he calls for international cooperation in these areas, since protecting against the threat of WMD

> will be almost impossible if the effort is unilateral. Perhaps the most important change needed in America's approach to [WMD] nonproliferation enforcement is to accept the essentiality of organizing coalitions to deal with proliferation.

The United States by itself cannot gather all the necessary intelligence or cut off the flow of material and information to potential proliferators; still less can it unilaterally isolate or exert moral pressure on dangerous regimes.

Indeed, Lodal's argument that U.S. security policy must gain international acceptance and approval to be successful is more important than his specific policy recommendations. The world dominance of the United States makes cooperation both more imperative and more difficult than it was during the Cold War. In that standoff between two superpowers,

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Washington could pursue its primary mission of deterrence largely unilaterally. But U.S. goals are now broader and achieving them will require working closely with others. Enhancing democracy; maintaining an open economic system; inhibiting conflict among developing nations; encouraging eastern Europe, Russia, and China to develop moderate and rule-governed habits—all these ambitions, in addition to limiting the dangers of WMD, will require more than simply the efforts of one country. And although American dominance means that others must curry U.S. favor, it also tempts other countries to take a free ride and let the United States provide as many international public goods as possible. It also gives them strong reason to resist an overbearing United States, in typical balance-of-power fashion. Achieving the sort of cooperation Lodal envisages will therefore be tough and will require delicate and sustained U.S. diplomacy informed by a full consideration of other nations' aspirations and fears.

This cooperative diplomacy is unlikely to be forthcoming from Washington. Lodal acknowledges but understates the strength of unilateralist feeling in the United States, often mistakenly interpreted as isolationism. Unilateralist impulses were strong in the Clinton administration, especially during the first term, and have been given still freer reign under President Bush. In the eyes of much of the world, in fact, the prime rogue state today is the United States. In explaining his rejection of the Kyoto Protocol, for instance, Bush said, "We will not do anything that harms our economy, because first things first are the people who live in America." It is hard to see how this attitude could produce the kind of cooperative endeavors Lodal favors. Although the Bush administration may seek significant cuts in offensive U.S. nuclear forces, it will probably couple any reductions with a robust missile defense system and a reluctance to enter into international agreements that regulate the U.S. program. This will hardly be enough to secure the assistance of foreign governments, which will cooperate only if Washington makes commitments and builds structures that give others some confidence that the United States is not exploiting its uniquely powerful position.

THE SOUNDS OF SILENCE

If the core of Lodal's argument is intellectually convincing but not politically feasible, other elements can be questioned on their merits. This is true, for example, of his proposal to preserve the option of the preemptive use of nuclear weapons against the WMD facilities of rogue states or terrorists, should conventional force not suffice. Is the danger sufficiently great and the remedy sufficiently efficacious to forgo the advantages of a strongly antinuclear position? Terrorism is not steadily increasing—terrorist attacks were more common in the 1970s than they are today—and the Europeans have suffered more attacks than has the United States but have not been as preoccupied with the threat. The current focus on WMD, rogue states, and terrorism may be more a function of the lack of traditional threats to U.S. security than of the magnitude of the actual menaces. Despite its murderous past behavior, North Korea's more recent actions, although contrary to American interests, hardly seem unpredictable or terribly rash. And although Saddam Hussein is unspeakably brutal

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and miscalculated badly by invading Kuwait, is he really more difficult to deter than Joseph Stalin? The phrase "states of concern" is certainly ungainly, but the Clinton administration was correct to abandon the term "rogues," with its implication that these states are beyond the reach of normal strategies of deterrence and diplomacy.

Even if there is a significant threat, moreover, the utility of nuclear weapons in dealing with it is far from clear. At a minimum, ordering a nuclear attack would require U.S. decision-makers to have confidence that an attack was imminent, that the targets were appropriate and could be destroyed only by nuclear weapons, and that retaliation was not likely. The chance that these conditions would be met is not high enough to justify the preservation of this option. A firm no-first-use pledge, in contrast, would push nuclear weapons further into the background of world politics, an outcome that would benefit the United States, given its enormous superiority across all other dimensions of power.

A middle ground is also worth exploring. If a no-first-use pledge is deemed unacceptable because it might encourage rogues to develop their own weapons without fear of nuclear reprisal (a position that assumes such predators would believe the U.S. commitment), or if the future is seen as too uncertain to rule out any options, then the United States might say nothing at all on the subject, neither taking the pledge nor explicitly reserving the right to first use. Silence runs against the grain of a loquacious government and an academic community that calls for clear policies, but here (as elsewhere) it might be the most sensible course.

GOVERNANCE BY THE UNGOVERNABLE

Unfortunately, by focusing so tightly on the U.S. nuclear posture, Lodal fails to address three crucial broader questions: what influence American policy will have on how others view these weapons, what nuclear weapons can actually accomplish, and how military and foreign policy goals are linked.

Throughout the Cold War, strategists debated inconclusively whether the superpowers were reacting to each other's weapons programs or were driven by internally generated imperatives. It is still unclear whether the United States can set an example for the rest of the world, for good or for ill, and Lodal does not dwell on the topic. Claims by countries such as India that they are not obliged to forgo nuclear options as long as the United States and Russia maintain large arsenals contain a large element of propaganda, but the role of status, standing, and emulation in driving proliferation should not be dismissed. If the United States acts as though nuclear weapons are highly useful, it may convince others of this very point more than it would like. And stressing the need for missile defense implies that even a slight vulnerability could paralyze American foreign policy—a perception that may undercut deterrence. Of course, others see the United States through their own eyes and with their own interests, and so predicting what they will take as signs of weakness, strength, or wisdom is notoriously difficult. Even if the United States does try to set an example, what others learn may be quite different from what Washington thinks it is teaching.

Lodal also skirts the question of what nuclear weapons can achieve, perhaps

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because the debates on this subject have been almost theological in their intensity and their paucity of evidence. Do nuclear weapons make it easier to maintain rather than alter the status quo? Under what conditions is this true and what are the exceptions? How is resolve conveyed in today's world? Do nuclear weapons inhibit the use of lower levels of violence or make the world safe for conventional war? Does having a large nuclear arsenal give the United States additional influence? All policy recommendations such as Lodal's rest on answers to such questions, but they are rarely made explicit, possibly because it is so hard to defend them with evidence.

A final issue that Lodal's book might have explored is the relationship between nuclear weapons and foreign policy, since the former should serve the latter and not the other way around. Defining the national interest expansively and intervening in areas of contention, for example, has the unfortunate effect of making the United States a target of dissatisfied countries and groups around the world. To the extent that there is a Chinese threat to the United States, after all, it arises not from any direct conflict or menace to vital U.S. interests (such as that which the Soviets posed during the Cold War) but rather from the American commitment to Taiwan, which is a matter of choice rather than necessity. NATO's expansion and concomitant military commitments, similarly, have hardly been required by traditional conceptions of security. In designing a post–Cold War nuclear strategy, therefore, one must start by asking not only what nuclear weapons can do, but what the United States wants.

Lodal's concluding chapter is titled "Leadership and Consistency," but it is doubtful that a high degree of either can be expected from a country that places a low priority on foreign policy and in which power is highly diffused. When a visiting U.S. official once tried to explain some confusing American policies to Charles de Gaulle, the general is said to have remarked, "The United States must be a difficult country to govern." The absence of an overriding threat has magnified this difficulty and rendered commitments that span administrations increasingly problematic. During the Cold War, the American style of governance kept U.S. policy open to allies' concerns and thereby facilitated Western unity, but today this style is likely to inhibit the kind of responsible and steady leadership that Lodal calls for. His prescriptions merit serious consideration, but if he could not persuade his colleagues in the Clinton administration to adopt them, there is little reason to expect the new team to sign on. The best one can hope for is that his book will provoke thought and discussion on this vital issue in U.S. foreign policy.

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Response

The Real Crisis Over the Atlantic

Dominique Moïsi

Antony J. Blinken has denounced with talent and conviction what he calls "the false crisis over the Atlantic" (May/June 2001). Although he is correct in saying that a continued transatlantic alliance would be "good for the United States, good for Europe—and good for the world," he misses the fundamental sea change at work. Most important, he fails to recognize the interaction among three international developments: the end of the Cold War, the changing nature of Europe, and globalization.

The United States and Europe are still united by democratic values and deep common interests. They make up a privileged, peaceful, and prosperous part of the world. To preserve what they enjoy, they need to enlarge their zone of lasting peace to their immediate neighborhood and beyond. They also need to reassess the fundamentals of their relationship.

The Cold War ended more than ten years ago, but it has taken that long to understand what its demise implied for transatlantic relations. With the exception of its chaotic first months, the Clinton administration oversaw a generally smooth but somewhat artificial transition period. The reflexes of the Cold War still dominated in the early 1990s. Most Europeans wanted more, not less, of America in Europe, especially after war returned to their continent in the Balkans. In addition, American benevolent indifference toward European efforts at autonomy in foreign policy, coupled with a relatively modest tone in U.S. diplomacy, contributed to an impression of reassuring continuity. But today, the combination of American moralizing at home and cynicism abroad could severely harm relations between Europe and the United States. It is highly significant that no one in Europe seriously considers George W. Bush's America a political model in the way that Ronald Reagan's conservative revolution inspired many European intellectuals and politicians. And the recent U.S. presidential election chaos did not encourage European confidence in American democracy.

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President Bush's foreign policy to date sounds inexplicably anachronistic and arrogant to Europeans. Europe's gut reaction is a feeling that Americans have changed their global ambition. Under Bill Clinton, Americans wanted to save the world from itself, albeit with reluctance. Under Bush, they intend to protect themselves from the world or even withdraw from it. European misgivings were further encouraged by Bush's suggestions during the election campaign that the United States could reduce its military presence in the Balkans.

To its credit, the Bush administration has tried to dispel most of these apprehensions, and it has nearly stopped making disparaging remarks about the credibility of European security efforts. Washington has also started framing the missile-defense debate with greater sensitivity to allied concerns. The amoral strategy based on mutual assured destruction has given way to a more defensive vision. In addition, the White House has reassured its allies of its commitment to Balkan stability. Yet there remains a dangerous American propensity to believe that the only way to be heard in the world is to "act tough," with the attendant risk of neglecting the cultural dimension of international relations. China is not the Soviet Union, and the Cold War is over.

The central problem lies in the divergence of U.S. and European agendas. Whereas Washington remains obsessed with rogue states and weapons of mass destruction, Europeans are more concerned with the future of the planet and of their food. This dichotomy explains not only the gap between a "responsible" global power and "selfish" regional players but the shift from the Cold War to the global age.

Traditional state-centered concerns are no longer as relevant in this age of interdependence. Instead, domestic issues such as the death penalty and abortion have emerged on the foreign policy agenda. Blinken is right in saying that many countries other than the United States, including some major democracies, still allow the death penalty. But he misses an essential point: When Europeans look to America, they see themselves. As individuals, Europeans may be as divided on the issue of death penalty as Americans are, but as a group they cannot accept that the self-proclaimed leader of the civilized world considers the death penalty a normal procedure, left to the sovereign decision of its individual states.

THE NEW EUROPE

It would be wrong to say that the new administration knows little about Europe. In fact, it is probably more interested and knowledgeable than the early Clinton administration was. But the Europe that the new Bush team knows is the one of the old Bush administration. Largely prisoners of past experience and prejudice, its members have so far failed to recognize the realities of the new Europe.

Americans are confronted with a Europe that still has difficulty reconciling goals and means. It speaks ambitiously about its future security forces yet remains incapable of increasing national defense budgets or forging a common foreign policy. Europe is still caught between the dual challenges of globalization and European Union (EU) enlargement, and it cannot define its identity in strictly geographic or institutional terms. Those who have power in Brussels have not yet acquired legitimacy, and those who have

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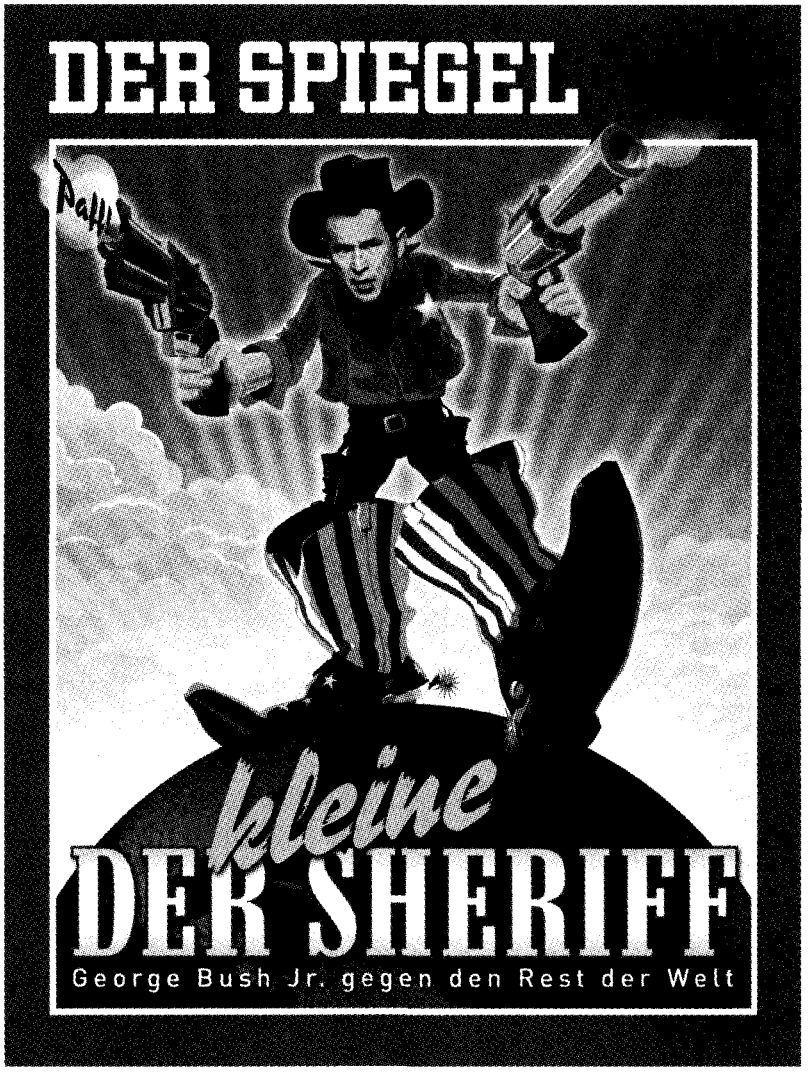

legitimacy in the national capitals now have less power. But another Europe is emerging that is much more self-confident, more real, and more successful than the bureaucracy of Brussels. It is a Europe of firms and civil society—alive, dynamic, and strong. This Europe—exemplified by the French chairman of Vivendi Universal, Jean-Marie Messier, or the German chief of Bertelsmann, Thomas Middelhoff—challenges America on its own turf. The two symbolic heroes of modern France, Messier and the antiglobalization activist José Bové, neatly portray French ambivalence toward the United States—a combination of fascination and rejection. This mixture describes not only French feelings but European sensitivities.

Yet the United States has failed to acknowledge this new Europe, just as it failed to forecast (to its detriment) such resounding European successes as Airbus planes. In a world of multiple identities and multiple cultures, Europeans are increasingly aware of their "European-ness."

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And one way for them to define their identity is to distinguish themselves from the United States. There is a European way to be Western—a product of history, geography, and culture—that is based on the weight of memory. By contrast, America is a culture of will. You are an American because you want to be so. Europeans ask themselves how to regenerate their past; Americans still perceive themselves in terms of the future. Even if the "Third Way" sounds artificial in Europe, something real may lurk behind it: a less ideological and more cultural "European" model. Europe's modern form of capitalism is combining flexibility, dynamism, and a humanistic tradition. Europeans are discovering their own "soft power," which comprises a certain quality of life with a natural diversity and creativity. In fact, globalization has accelerated Europe's growing awareness of its unique cards in an interdependent world.

In the early 1970s, European anti-Americanism was a reaction to what the United States did, such as bombing Vietnam or Cambodia. Today's anti-Americanism is a reaction to what the United States is—a much more perverse form of hostility. Of course, not all Europeans perceive America the way some French do. But the differences between individual European states are only matters of style and nuance. France has moved closer to its European partners in security matters and NATO, while the rest of Europe has moved closer toward French positions on ecological, cultural, and ethical issues. The real differences today exist among western, central, and eastern Europeans.

Enlargement of the EU is also significant for the future of transatlantic relations. Most applicant countries, Poland in particular, understandably feel at least as Western as as they do European. NATO reassures them as they face Vladimir Putin's Russia, whereas the EU challenges their recently restored sovereignty. In fact, instead of being considered a Trojan horse, Poles should be welcomed as an ideal bridge to Russia, just as the United Kingdom is Europe's bridge to the United States. (That said, this vision is not yet accepted by either the French or the Poles.)

Today, Americans understand that the long-term stability of the transatlantic relationship requires a more relaxed attitude toward NATO. Washington should allow the Europeans to prove themselves in security matters and wait to see whether their deeds meet their intentions. And Americans should match their words with their actions rather than preaching partnership but acting as a distant and lonely leader.

A strong and confident Europe is the foremost condition for the survival of an Atlantic partnership—which will be all the more necessary in the complex and difficult years ahead. Working toward a more balanced alliance in a more balanced world should be a common ambition. The more secure Europeans are, the less they will be tempted to assert their differences in an immature, aggressive way. A stronger Europe will mean a stronger NATO, a reality that too many Americans fail to accept. Washington's Europe-watchers tend too often to distrust or underestimate Europe. Too many in Washington still believe that an independent Europe will prove incompetent, paralyzed, and divided, if not ultimately suicidal. By getting their act together, Europeans have to

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persuade Americans that trust and respect are a two-way street.

Given that the new Europe is still a mystery for Europeans, it is not surprising that Americans also fail to understand it. In the same vein, the new Bush administration is alien to a majority of Europeans, not to mention to many Americans themselves. Americans should understand the cost of their unique centrality but not retreat defiantly. Enlarging the frontiers of democracy, stability, and peace to eastern Europe and ensuring that Russia does not follow a more dangerous path are tasks that only the United States and Europe together can achieve. The same is true for global problems. Europe and the United States have to place in perspective their quarrels and the dramas of the world. The global age has not changed the fact that nothing in the world can be done without the United States. And the multiplicity of new actors means that there is very little that the United States can achieve alone. The world has to accept the United States as it is, without hesitating to nudge it in the right direction. And the United States has to recognize that there is a lot to learn from the complex and often messy reality beyond its borders.

Finally, both sides should remember that today's troubled partnership is in fact far healthier than it was in the early 1960s, when France chose to leave NATO, or during the 1982 Pershing missile crisis, when the Soviet Union was manipulating the pacifist instincts of many Europeans. But today both sides are less familiar and more competitive in economic, social, and cultural terms, if not on more fundamental ethical grounds. For the first time since 1947, a mutual decoupling of the United States from Europe is truly possible—and not only because the glue of the Soviet threat has disappeared. Washington cannot use yesterday's stereotypes and prejudices to deal with the more mature and complex Europe of today. And Europe should not stoop to demonize and caricature the United States, which it still badly needs as an indispensable but more equal partner.

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Letters to the Editor

Jake Sherman questions the new geography of conflict; Roger Kubarych explains why the trade deficit matters; Kathleen Christison defends the Palestinians; and others

FAULTY FAULT LINES

To the Editor:

Michael Klare argues that competition over scarce resources has replaced Cold War–era ideology as the main driver of international relations ("The New Geography of Conflict," May/June 2001). Although he is right to point out that resource competition has contributed to the escalation—if not the outbreak—of conflict, he provides little evidence for his grand claim that "a map of contested resource zones is a more reliable indicator of potential violence than any other single factor."

In mapping out the "new geography of conflict," Klare suggests that "unsettled resource deposits" predict where conflict is likely to erupt. But many contemporary conflicts, such as the war between Ethiopia and Eritrea, the genocide in Rwanda, and the dissolution of Yugoslavia, do not readily fit into his model. Nor do the relatively stable diamond-producing states of South Africa, Namibia, and Botswana. These exceptions suggest that resource competition is not necessarily the primary motivation for conflict. Rather, political and social instability may also play a role. Much of the unrest afflicting oil-producing states, for example, owes more to internal governance problems such as flawed fiscal policies and uneven wealth distribution than to external competition.

Simply identifying resources as "unsettled," moreover, says little about the kind of conflict that will likely emerge. Competition over different sets of resources—oil and gas, water, or export commodities—leads to different sets of conflicts, which in turn demand different sets of policy responses. Disputes over oil, gas, and water reserves, for example, are more apt to occur between sovereign states and thus tend to revolve around issues of territorial boundaries and resource sharing. Accordingly, such conflicts may be resolved through international law and diplomacy. Conflicts over export commodities such as minerals and timber, however, are more likely to occur within a single state—often when rebel groups seek to wrest natural resources away from government control. Such disputes, then, are unlikely to be resolved through diplomatic agreements, since states are unlikely to yield sovereign control of resources to rebel groups and may be reluctant to seek or accept outside intervention. By grouping together different categories of resources, Klare overlooks these important distinctions and their policy implications.

JAKE SHERMAN

Program Officer, Project on Economic Agendas in Civil Wars, International Peace Academy

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FREE FALLING

To the Editor:

C. Fred Bergsten's thoughtful analysis of "America's Two-Front Economic Conflict" (March/April 2001) raises crucial questions about the long-term viability of globalization. Bergsten argues that U.S. popular resistance to globalization can be overcome only if the United States creates a stronger social safety net to protect those Americans harmed by the disruptive effects of a global free market. But if the world's most powerful country—which presumably benefits enormously from the liberalization of financial and trade flows—must adopt such policies to make globalization acceptable at home, what options exist for the rest of the world's societies?

Few governments in Latin America, Africa, Asia, or the former Soviet Union have the resources to provide a similar cushion for their people. In fact, these states are often encouraged or required to dismantle their existing social programs as they integrate into the global economy. Consider how China has ended many benefits for its workers as it has liberalized its economic policies, or how the International Monetary Fund conditions assistance on government cutbacks of social programs or food subsidies. As a result, many people in developing countries believe that a small group of winners receives the lion's share of globalization's benefits while the more numerous losers go into free fall. The existing backlash against globalization in these countries will only grow under these circumstances.

If the United States and other industrialized countries wish to preserve the economic and political benefits of globalization, they must not only overcome popular resistance at home. They must also find new ways to help other societies create and maintain social safety nets that will both foster political support for globalization and support the needs of those displaced by the dynamics of the global economy.

VINCENT A. AUGER
Assistant Professor of Political Science, Western Illinois University

TRADE MATTERS

To the Editor:

Joseph Quinlan and Marc Chandler make an important point and substantiate it well ("The U.S. Trade Deficit: A Dangerous Obsession," May/June 2001). But they sidestep the question of whether the trade deficit matters by changing the subject to the undeniable fact that U.S. companies participate in the global economy in many more ways than just merchandise trade.

The trade deficit is important because it vividly displays a key imbalance: Americans spend more than they produce. They can do that only if someone else finances their debt. If the private sector finances the trade deficit voluntarily, that's fine. But what if, for whatever reason, private investors get cold feet? The slack may be taken up by the public sector—that is, the Bank of Japan or the Saudi Arabian Monetary Authority might step in to buy U.S. securities (normally, U.S. Treasury bills and notes). Otherwise, the exchange rate must take a hit.

The depreciation of the dollar sets in motion a beneficial long-term adjustment process, as described in every elementary economics textbook: foreign goods get more expensive, and Americans and

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foreigners alike switch to U.S. goods. But this takes time. In the meantime, the adjustment process might be slowed or, in the extreme case, stopped altogether by a continuing high level of domestic demand. In that case, monetary and fiscal policies have to become more restrictive.

Simply put, a country with an unfinanceable trade deficit has to tighten its belt, and that is usually painful. Just ask any of the countries that have lost access to private capital markets and have had to go begging for help from the International Monetary Fund.

Could it happen here? Of course it could, and it did—in 1978–79 and, in a smaller way, in 1999–2000.

ROGER KUBARYCH

Senior Fellow in International Economics and Finance, Council on Foreign Relations

To the Editor:

The article by Joseph Quinlan and Marc Chandler should help defuse widespread misconceptions of how to interpret the levels and balances of U.S. imports and exports in a rapidly changing world economy. But as valuable as such an analysis may be, there is no substitute for an effort by the White House to help American workers, companies, and communities adjust to the serious problems sometimes caused by competitive imports or the movement of U.S. production lines to foreign countries. Such an effort would deny protectionist pressures any traction. Free traders everywhere—in government, business, think tanks, and elsewhere—have been neglectful of such policies, which are so vital to the political viability of free trade.

DAVID J. STEINBERG

President, U.S. Council for an Open World Economy, 1974–89

PLAYING FAIR

To the Editor:

David Makovsky does not demonstrate a good understanding of the Palestinian position or of the frustrations that sparked the al-Aqsa intifada in September 2000 ("Middle East Peace Through Partition," March/April 2001). Although he rightly states that a "key premise of the Oslo talks was that formal peace agreements would produce greater trust and security for both sides," he in fact writes almost entirely from one perspective. He discusses at great length what the Palestinians failed to do to assure Israel's security, build Israel's trust and confidence, and promise reconciliation to Israel. But he devotes very little of his analysis to what Israel failed to do for the Palestinians.

He gives only passing attention, for instance, to the vast expansion of Israeli settlements in the West Bank, Gaza, and East Jerusalem and barely mentions the crippling restrictions that Palestinians have had to endure as a result. Many observers believe that Israel's confiscation of land and residency permits, demolition of houses, rationing of water, destruction of olive groves and farmland, and imposition of checkpoints, blockades, and curfews—for years before the start of the intifada—constitute a type of violence every bit as destructive as any Palestinian violence. Settlement expansion has seriously prejudiced the peace process, undermined Palestinian security, destroyed Palestinian trust and confidence, and, to use Makovsky's own word, "gutted" any promise of Israeli reconciliation with the Palestinians.

Makovsky's concept of disengagement is fine, but it is disturbing that he seems

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unable to view the peace process as a negotiation that treats both sides' concerns equitably. A successful peace process must be as determined to guarantee the safety and existence of the Palestinian people as it is to guarantee the safety and existence of the Israeli people. A peace not so structured will not be stable or secure for either side.

KATHLEEN CHRISTISON
Former political analyst, Central Intelligence Agency

ERRATUM

In "The New Geography of Conflict" (May/June 2001), Michael Klare wrote that, in October 1999, command authority over American forces in Central Asia was transferred from the U.S. Pacific Command to the Central Command. But although the Pacific Command had conducted several joint exercises with forces of the Central Asian states prior to this date, it did not exercise overall command authority; such authority was retained by the Joint Chiefs of Staff in Washington until delegated to the Central Command on October 1, 1999.

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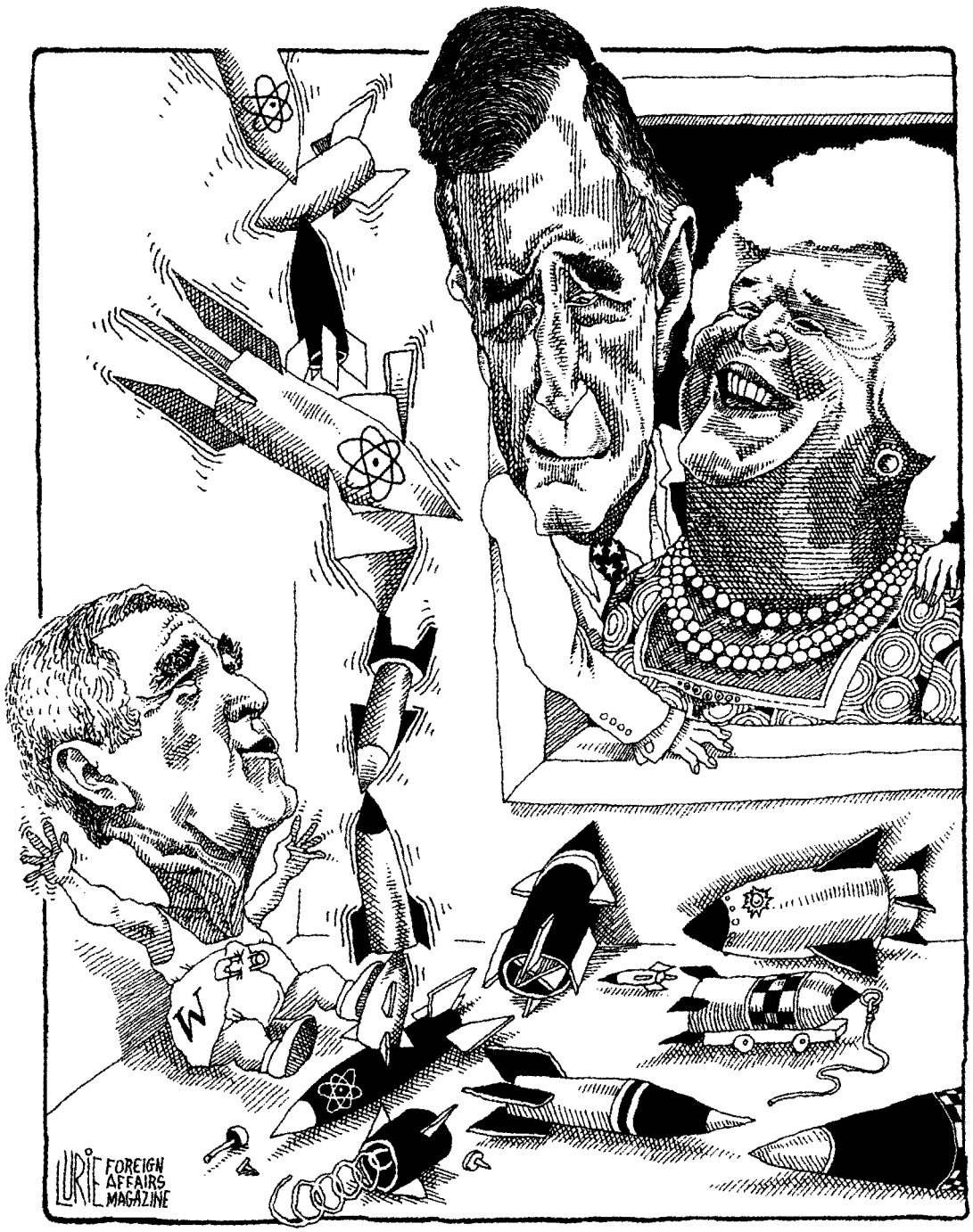
Lurie's Foreign Affairs



"Mama! Papa! Look! NO HANDS!"

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